

1962

IN THE COURT OF THE TRANSPORT TRIBUNAL

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THE MATTER OF THE APPLICATION (1962 No. 2) MADE BY
THE BRITISH TRANSPORT COMMISSION IN PURSUANCE
OF SECTION 23 (5) OF THE TRANSPORT ACT, 1953

FOR THE ALTERATION OF THE
BRITISH TRANSPORT COMMISSION (PASSENGER)
CHARGES SCHEME, 1959

MONDAY, 4th JUNE, 1962

FIRST DAY



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1962

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PROCEEDINGS OF THE TRANSPORT TRIBUNAL

MONDAY, 4th JUNE, 1962

PRESENT:

SIR HUBERT HULL, C.B.E. (*President*)

J. C. POOLE, Esq., C.B.E., M.C.

H. H. PHILLIPS, Esq., O.B.E.

Mr. E. STEWART FAY, Q.C., and Mr. T. R. CRAWFORD (instructed by Mr. M. H. B. Gilmour, Chief Solicitor to the British Transport Commission) appeared on behalf of the British Transport Commission.

Mr. R. W. GOFF, Q.C., Mr. LEON MACLAREN and Mr. GEORGE MERCER (instructed by Mr. J. G. Barr, Solicitor to the London County Council) appeared on behalf of the London County Council.

Mr. S. H. NOAKES (instructed by Mr. W. O. Dodd) appeared on behalf of County Borough Councils of Brighton, Eastbourne, Hastings and the Borough of Worthing.

Mr. D. COLLARD (indicated by Mr. E. R. Farr) appeared on behalf of Barking Borough Council and South Essex Traffic Advisory Committee.

Mr. E. A. MACHIN (instructed by Mr. D. Heap, Comptroller and City Solicitor) appeared on behalf of the Corporation of London.

Mr. P. M. VINE, Deputy Town Clerk, appeared on behalf of the County Borough of Southend-on-Sea.

Mr. B. SLATER, appeared on behalf of the County Borough of West Ham.

Mr. F. H. B. CLOUGH, appeared on behalf of Middlesex County Council.

Mr. L. F. N. INNES, appeared on behalf of Surrey County Council.

Mr. J. Langley, appeared on behalf of Leyton Borough Council.

Mr. F. A. RULER, represented the Federation of Residents' Associations in the County of Kent.

(*Mr. Fay*): This, as you know, is an Application under Section 79 of the Transport Act, 1947, for alterations in the existing Passenger Charging Scheme; those alterations are the same as those temporarily authorised by this Tribunal under the speedy procedure created by Section 23 of the Act of 1953, and your Order on that Application was made on the 26th March of this year. Of the increases which were permitted by that Order, two—the raising of the ordinary fares for 13 and 24 miles on London Transport's activities and the London/Tilbury line—came into force on the 15th April; the remainder of the increases permitted under your Section 23 Order came into force yesterday. All the fares authorised by that Application, and the Permit authorisation of which is sought in this Application, are therefore in force.

The first Inquiry by this Tribunal into a Passenger Charge Scheme took place, I think, in the year 1950; since then there have been almost annual Inquiries of this nature. This I believe to be the tenth, and it is expected to be the last. I hasten to say that although it appears likely to be the last Inquiry into a Passenger Charges Scheme, it does not appear likely that the Tribunal is going to be relieved of this kind of Inquiry in the future. It is true however, I think, to say, as far as one can foresee events, that this is the last of the Inquiries under the set-up of the Transport Acts of 1947 and 1953, and the last in which the instrument to be debated is called a Scheme. Therefore I think I can represent this as the swan song of the Passenger Charges Scheme. Yes, Sir, I find I have presided over all except the first one. There are some in this Hall, I believe, who have been present at all of them, including, I am glad to note, Mr. Poole, whose stamina is worthy of congratulation. I think my learned friend Mr. MacLaren shares Mr. Poole's distinction of having survived all the Inquiries since 1950. There may be others. We are a hardy lot, by and large!

I have mentioned by inference the fact that a change in the law relating to fares, among other things, is impending, and I, of course, refer to the Transport Bill which is now before Parliament. Now that I have referred to it, it is, perhaps, right that I should say at the outset how my clients regard the probable change of the law as affecting the deliberations of this Inquiry. By and large, we submit that it does not affect those deliberations. The Bill is not passed; it is merely known to be before Parliament. What

happens to it, and when, if at all, it comes into force, are matters for informed guesses or reliance upon statements which may or may not be fulfilled. It appears likely, of course, that it will be passed, in much the same form in which it appears at present, when it is proceeding through the House of Lords. But the law which governs this Application, and the result of this Application, is still that of the 1947 and 1953 Acts. The British Transport Commission, which will disappear under the Bill comes into force, is still in being; it is still the Applicant and is still subject—as, indeed, is this Tribunal—to the provisions—the mandatory financial provisions—of the various sections of the two Transport Acts. Therefore we submit that it is not right to pay attention to what may be coming in the future, but that it is right to continue to pay attention to the principles established in the past.

It would be foolish, of course, to shunt one's eyes to the fact that there is an impending change—and the fact that the obligations which we have to administer and observe are likely to be changed is a fact which, no doubt, may be taken into account as a matter of time factor. One cannot look as far ahead this time as one has in the past. In those general circumstances, the Commission has thought it right on this Application to do more than try to preserve the financial position implicit in the Tribunal's last decision; it is to do no more than rectify changes since then that this Application attempts. This is no time, in the circumstances, for new ideas or for departure from established practices; we must follow the old paths such as assimilation and the old approaches to such matters as Central Charges.

Accordingly, this is an Application which, unlike some past Section 79 Applications, goes no further than seeking to preserve the increases already granted by your Tribunal under Section 23 and granted under that section to meet increases in costs. In fact, it might be called no more than a holding operation.

May I come to those increases in expenditure, chiefly in wages, which formed the subject of, or the justification for, the Section 23 Application and which have become known since the last time (I think it was March of last year) when the Commission was before the Tribunal on a Fares Application. The increases since that time in the

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[Continued]

level of expenditure on goods and wages and similar outgoings per annum are as follows: British Railways as a whole, £24m.; the share of the London Lines for British Railways of that figure and the method of apportionment used in the past, about £1½m.

(President): Are these figures in any Exhibit which is to be handed in?

(Mr. Fay): They will be given in evidence: I think some of them are reflected in Exhibits. The similar increase in the case of London Transport for wages and price levels, £2.7m. per annum. Against those increases the yields sought by this Application are as follows: British Railways outside London, an increase in season ticket rates only, producing no more than £300,000; British Railways London Lines, an increase in day returns and in the fares on the London, Tilbury and Southend line and associated concessionary fares amounting to £200,000, and an increase in season tickets producing £500,000. The product of this Scheme as regards the London Lines of British Railways is a total of £700,000 per annum.

London Transport by this Application seeks an annual increase in the yield of its ordinary fares amounting to £2,500,000 and a yield on season tickets of £145,000, total £2,645,000.

I emphasise that those figures of yield are the subject-matter of this Application; they do not, of course, tell the whole story of the measures taken to deal with the increases in costs which I have mentioned.

In addition to those figures, there are now in force increases made within existing charging powers—with the charging powers existing under the Section 23 Order, that is to say—as follows: British Railways yesterday increased their ordinary fares by using up the remaining farthing of head-room; the fare is now 3d. per mile; and on British Railways outside London the ordinary and associated concessionary fares are estimated to bring in £3,900,000 yield.

British Railways also yesterday made use of the existing authority to increase season ticket rates (I shall say a word about what I mean by "existing authority"—the pre-existing authority), to yield a further £300,000 per annum.

The yields to the London Lines of British Railways outside the scope of this present Scheme are £440,000 per annum from ordinary and associated fares, and £500,000 from season tickets.

The yield to London Transport from increases not the subject of this Application is £50,000 per annum from an increase in concessionary fares, and £145,000 from season tickets.

The increases I have mentioned as being not the subject of this Application in season ticket rates represent the use of the authority which the Commission has had since the 1st January of this year to increase season ticket rates to the maximum provided by the decision of the Tribunal on the Application made last year. They have had the power since the 1st January; they did not exercise it on the 1st January for good commercial reasons, because it was then seen that there was a likelihood of an Application being made under Section 23, and it was thought that if that Application were granted—as, in fact, it was—it would be better from the commercial standpoint, and better from the public standpoint, to have one increase of a larger amount rather than two increases of smaller amounts separated at no great distance in time; the unsettling effect upon fares of frequent changes was thus avoided.

That is why the increases in season ticket rates yesterday were as to half within the pre-existing powers and as to the other half pursuant to the powers temporarily conferred by the Section 23 Order and the subject of this Inquiry.

If one is considering how far the increases in expenditure are met by increases in charges, it is wrong, in my submission, to take into account the half of the season increase which stems from the authority last year, because

it is evident that the Tribunal, in giving that authority last year, did so in the light of circumstances appearing to the Tribunal last time and not to cope with increases which were not then foreseen, but which are the subject, or the origin, of this Application.

May I make the comparison of the increases in costs with the yield of the increases in charges? The passengers of London Transport are being asked almost exactly to match the increase in expenditure. The expenditure increase is £2.7m., and the yield of this Application is £2,645,000 plus the concessionary fares of £50,000, making £2,695,000—against an approximate increase of, as I say, £2,700,000 in expenditure. The passengers by the London Lines of British Railways are being asked to pay a good deal less than the increase in costs, which I have put at about £1,500,000 (that is the increase in wage and price levels); the yield of the Scheme is £700,000, and the yield of the Scheme in ordinary and concessionary fares is £400,000, making £1,100,000 in all.

Of course, this comparison of increased wage and price levels, on the one hand, with yields on the other hand, is only a very rough way of assessing the picture, because there may well be other variations (and we shall find there are) in other outgoings, and also on the receipts side of the account. But by this rough test, which stems, of course, from the wording of Section 23 and is the Section 23 procedure, the comparison of the increase in expenditure with the yield of the increase in fares tends to show, in my submission, at the outset that the Application is a fair one.

May I go on and look at the full financial picture as it will be presented to the Tribunal by the witnesses. May I here say that my witnesses will be four in number, three of them already well known to the Court, firstly Mr. Winchester, who will deal with British Railways and the London Lines of British Railways as well as on the expenditure side and will give general financial evidence, then Mr. Dickson who will deal with the receipts side of British Railways' activities outside London; then Mr. Evershed, who will deal with London Transport on the expenditure side, and, finally, a newcomer to these Inquiries, Mr. Robbins, who is the Chief Commercial and Public Relations Officer of London Transport, who will deal with the receipts side both of London Transport and of the London Lines of British Railways.

It I may start with British Railways outside London, this is a similar picture to that which has been presented to the Tribunal before—simple, unproductive of controversy and not very gladdening to the heart of the railwayman; it is a story of large deficits and of the inability of the passenger traffic to meet the outgoings, with its corollary, as I have submitted in the past and submit again, the commercial as well as the legal necessity for the Commission to obtain as much as properly can be obtained from the passenger activities of British Railways outside London.

I have no tables relating to British Railways outside London, but may I give the figures of the deficits: In 1960, according to the published accounts, the deficit of British Railways as a whole was £112m.; that is after taking into account Central Charges at £45m. In 1961 (the accounts are not yet published and this is not, therefore, an audited figure) the deficit is £136m., after taking into account Central Charges of £49m. The picture for 1962 is expected to be much the same; perhaps I should add that the Central Charges for 1962 are expected to be £55m. The reason for the considerable increase in Central Charges I shall have to go into at a later moment in my opening observations, when I deal with London Lines.

So the passenger services are not paying their way. This deficit is being contributed to by them as well as by the other, or freight, services, and you will hear from Mr. Winchester that the coaching services (because one has to lump the revenue from the parcels traffic carried in parcels trains and trains runnings as passenger trains in order to arrive at a figure) met their true costs, but contributed in 1961 only £30m. towards their joint costs which amounted, including Central Charges, to £192m.—that is 16 per cent of the joint costs. 16 per cent is by my test inadequate. If one applies the test of gross receipts, the proportion is 45 per cent (that is the proportion of the gross receipts of the coaching services to the gross receipts of British

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[Continued]

Railways as a whole). If that is a fair test (and it cannot be far out as a test), the coaching services, in order to pull their weight, would need nearly another £60m.

Of course, as I have said, it is a commercial and, indeed, a legal duty, to go as far towards filling that gap as possible, but anything like the full £60m. from the passenger services is clearly, in present circumstances, out of the question. British Railways, by using up the headroom entirely on ordinary fares and charging as from yesterday 3d. per mile, are getting in £3,900,000 in the year, and, by the increases in season ticket rates—both the 1st January increase and the Section 23 increases—get in another £600,000.

The increases in season ticket rates are of course, as you know, the same as those which we shall be dealing with in more detail in London, and the increase, which was broadly 10 per cent yesterday, in season ticket rates, matches the increase in the ordinary fares, from 2d. to 3d., so that the relationship between the ordinary and the season is preserved.

I can, perhaps, illustrate that by asking you to be good enough to look back at a table put in last year. If you have the Minutes of the proceedings of the 1961 Inquiry before you, you will see it is on page 46. This is Table AD 1, at the top of that page. You will recollect that that table was put in by Mr. Dickson to show the relationship of season tickets, on the one hand, and ordinary fares, on the other hand, to the original fares settled in the first Scheme affecting British Railways outside London in 1952, and it showed that, taking those fares as the base 100, there were various increases bringing the ordinary fares, which are at the bottom of that table, up to an Index of 143 in June, 1960, and the season tickets up to a similar index—at 70 miles it was the same, 143—by the alterations effective in May of 1960. Now the ordinary fares have gone up to the maximum which is shown on this table as the last figure at the bottom—171 being the index—and the season tickets at the present rates effective from yesterday show comparable indices, and I have them written into my copy.

I do not know whether you would like me to tell you what the figures are; it may be of assistance if I did, to complete the comparison, and would save my having to put in a document, which I want to avoid. The index under the present fares as now in operation, and as the subject of this Scheme, is: 10 miles 176, 20 miles 174, 30 miles 180, 40 miles 173, 50 miles 171, 60 miles 167, 70 miles 165—comparable, as you will see, with the maximum ordinary fare, which produces an index of 171, and, be it noted, less than what was asked for as a headroom last time.

One small consideration I might mention in connection with the season ticket increases is that they march broadly in step with increases in Provincial bus fares, because there are now before the Traffic Commissioners, I think I am safe in saying, every Traffic Area in the country. Applications by the Provincial bus companies to increase their fares consequent upon the last round of wage increases awarded to the Provincial bus employees. At least one—perhaps more—has already been granted, and others are pending; so as far as timing is concerned, the increase in bus fares, coinciding broadly with the increase on the railway season ticket fares, will minimise any disturbances in the relationship between the two.

That is all I need say about British Railways outside London. The Inquiry is concerned only with the second half of the season ticket increases—approximately five per cent. Its yield is small; it is in parity with the increase in ordinary fares, and it is a step towards meeting the deficit which must be struggled with by such means as are commercially open to the Railways.

May I now turn to what bulks larger in these Inquiries, and that is the finances of London Transport. Here may I ask you to look at some Exhibits which will be put in by Mr. Evershed. I think there have been furnished to the Tribunal sets of the Exhibits which the Commission propose to put in, and I wish to refer now to Exhibit AE 1. If I may now ask the Tribunal to look at that Exhibit, it is in a familiar form and it shows, as its title says, the financial position of London Transport first of all in 1960 (column 1), secondly, in 1961 (column 2), and, thirdly, in a future year (column 3). Column 3 is, in fact, based upon

the budget for the present year, 1962, and the entries are at the charges prevailing before the Section 23 increases—that is, before April of this year—until one comes down to line 10, where there is added in the effect of the yield of the increases the subject of this Inquiry. The 1961 figures are those in the accounts, and they show, at line 9, that there was in that year a surplus, after meeting Central Charges, of £1.4m. The 1961 figures in column 2 are described as estimated because the accounts are not yet published. But it is some months since the end of 1961, and therefore those figures, it is hoped, are not different from those which will eventually be published. They show that in 1961 (line 9) there was a surplus, reduced after Central Charges to £0.7m. The present year, projected to give a full year's effect to the present charges which are known to date, produced this result, that the receipts at line 3 come to £89m., as is forecast; that includes passenger receipts of £88.7m. (and we shall see the detail of that later in another table). The working expenses at line four are estimated to be £84.6m., leaving net traffic receipts at £4.4m.

At line six it is seen that there is a welcome increase in the net figure of receipts from commercial advertising, letting of sites, and so on (that is due, I believe, to increases in rents which have been put before us), which brings the total net receipts to £6.2m. against Central Charges of £7.5m., so that, instead of a surplus, there is, at the rates before the increases authorised in April, or March, a deficit of £1.3m.; that is to be met, as line 10 indicates, firstly by an £0.2m. yield of increases within the existing powers; that £0.2m. is made up of 1st January seasons, if I may so call them (they were called Stage 3 seasons last time—the seasons authorised as from 1st January of this year), which bring in £0.15m.; the other £0.05m. is in increased concessionary fares.

So, outwith this Application there is £0.2m. to be obtained; then, at line (b) of Item 10 is set out the yield of the present Application as authorised by the Tribunal's Order of the 26th March, 1962, namely £2.6m. Those two produce, instead of a deficit, a surplus of £1.5m. and perhaps I might ask the Tribunal to contrast that surplus which is thrown up by the present proposals with the surplus of 2.1m. asked for last time on the basis of the fares which the Tribunal then authorised; and also to contrast it with the surplus for 1962, which the Tribunal said, in its Interim Decision in 1959, should be produced, namely, approximately the figure of £2.5m. So instead of the £2.5m. for which we should be fully justified in asking on the basis of your Decision in 1959, we are asking only for a surplus of £1.5m. That is Exhibit AE1.

Exhibit AE2 is again a familiar document—

(President): The 1959 document was a Stationery Office paper, was it not?

(Mr. Fay): Yes, Sir, the Interim Decision of 1959 was published by the Stationery Office. I have it here—4d. net!

(President): What is the date?

(Mr. Fay): 8th May, 1959. The paragraph to which I was referring was paragraph 6 of that Interim Decision; unfortunately it is a small document, not the same size as the Minutes of Evidence, and I dare say it is up in the Minutes.

(President): Yes, we have it; it is after page 520.

(Mr. Fay): I was referring to paragraph 6, in which the Tribunal said: "We have decided that the powers exercisable in the case of the road and rail services of the London Transport Executive shall be such as, upon the assumption that there is no significant increase in the general level of costs, will empower the Commission to secure:—(1) that in 1959 the total net receipts shall be at the least sufficient to provide a just contribution to the 'central charges' of the Commission, and (2) that in 1960 and 1961 the total net receipts shall be sufficient to provide (a) a just contribution to the 'central charges' of the Commission and (b) surpluses at the rate of about £2.5m. a year".

(President): Yes, I remember.

(Mr. Fay): Last time you remembered it, Sir, because I remember citing it to you and omitting the word "about." I am reminded that the £2.5m. was not a firm figure but an approximate one, and I hasten to make that gloss on it.

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[Continued]

The next Document, AE2, is the familiar table of reconciliation, or of differences, bringing out the differences in the various items on both sides of the account as between 1961 and 1960 in column 1, and as between the future year of AE1 and 1961 in column 2. I propose only to ask you at this stage to look at column 2, where you will see that compared with 1961, the working expenses all show increases.

First of all, there is "Wage rates and conditions of service"; that is £2.1m. Then there is "Pensions, superannuation and National Insurance", an increase of £0.3m.; then "Price levels of electric current, fuel oil, tyres etc.", an increase of £0.3m. That adds up to an increase in wages and prices of £2.7m. There are also increases in rates, £0.1m. and depreciation, £0.2m.; that is offset by a welcome figure of £0.5m., "Savings arising from mileage changes, including trolley-bus conversion." Here is the impact of the net revenue of the further investment on, amongst other things, buses to replace the trolley-buses, as they now entirely have. So, as compared with last year, there is a net increase in working expenses (line 9) of £2.5m.

There is also a variation, unfortunately in a downward direction, in the receipts apart from fare increases. The fare increases of last year and of the year before, or part of the year before, bring in an extra £1.3m.; but there is a decrease of £0.3m. representing change in volume of traffic etc., of which you will be told, and as you will see in another table later, that £0.2m. is declining trend, and other factors are £0.1m. There is also a decrease of £0.1m. in the miscellaneous receipts. That shows, owing to the impact of fare increases, an increase in receipts of £0.9m. and a decrease in net traffic receipts of £1.6m. There is the increase in the net revenue from letting, etc. to be added; that is £0.1m., and therefore there is brought out a decline of £1.5m. in the net receipts before Central Charges, and there is an increase in Central Charges of £0.5m., so that the worsening in the financial position of the future year compared with 1961 is £2.0m.

That, I repeat, is the worsening compared with the year 1961, the calendar year; the worsening compared with the position as it was when we were before you last time is of course greater, because we were back then in March, 1961, and the amount by which it is greater can soon be seen by looking back to table AE1. Last time at the fares we asked for, and which were granted subject to the delay to the 1st January in respect of some of the season ticket rates, the surplus forecast was £2.1m.; that appears on one of the documents for last time, to which I do not think I need refer you at this stage. But the same fares this time produce a good deal less; they produce not a surplus of £2.1m. but a deficit of £1.1m.—I get at that by looking at line 9, column 3, of AE1.

That is a deficit of £1.3m., and we deduct from it the £0.2m. which appears at line 10 (a), because that £0.2m., or the greater part of it, is the product of the season ticket rates authorised last time and taken into account in creating the surplus of £2.1m. So, at the same fare levels, at the beginning of 1961 the Commission were forecasting a surplus of £2.1m. Now, on precisely the same fare levels, they forecast a deficit of £1.1m., and if one adds those two together, one gets a worsening of the position since we were last before you, to the amount of £3.2m. That is the true worsening, as I submit, to be collected from these figures since we were last here.

You have noted, of course, Sir, that in Exhibit AE1, the Central Charges increase by £0.5m., to £7.5m.; that figure has been provisionally agreed between London Transport and the British Transport Commission as being the proper figure of Central Charges for 1962. I suppose it would be surprising if the correctness of that figure were not the subject of debate this time, because we have always had debates about the size of London Transport Central Charges, so perhaps I should anticipate that by saying how it will be supported in evidence.

We do again the same exercises as we did in 1961; there were two of them. The first method of calculation as used in 1961, and indeed also at a later stage of the previous Inquiry, is to start with 1959 and take it that

the Central Charges were then accepted by the Tribunal as being properly put at £6.0m., and then to see what has happened since then. That was done last time in the Exhibit which was at page 44 in 1961, Exhibit AE5, and it is re-done this time in Exhibit AE3, to which I invite your attention.

This is, as it were, a specific examination of the extra burden of interest charges year by year since 1959. I think it is self-explanatory; certainly it was the subject of examination last time, so I need not spend too long over it. It brings out the amount which has had to be borrowed and the amount met by internal financing; it shows the interest, cumulative, of course, upon those figures, and it brings out, at line 12, as the total Central Charges for 1962, the figure of £7.3m.

In that connection, Sir, it is very important, as I submit, to bear in mind the contents of the asterisked footnote, which is associated with what is said in the body of the document between lines 9 and 10, where you will see that the interest is said to be calculated "assuming that each year's borrowing will bear interest . . . starting from the middle of each year". That is because these figures of capital outlay are, of course, incurred throughout the year, and therefore the average is taken as being the point at the middle of the year as the starting point of interest payment. If one starts from the middle of the year, it means that in the last year of a table such as this, one is not given the entire story, and the asterisked footnote, therefore, points out that "An additional half-year's interest amounting to £0.3m. will fall to be met in 1963, being a further half-year's interest at 6 per cent on the net borrowing in 1962".

So there is always, according to this method of calculation, a back-log of a half-year's interest to remember, and if one finds the total Central Charges for 1962 thrown up as £7.3m., one must bear in mind that if not another penny is borrowed, and therefore not another penny added to the interest charge, the interest charge by the first half of 1963 will be raised to £7.6m., and that is the figure which, in my submission, should be compared with the figure of £7.4m. which the Commission and the Executive have agreed as the proper figure for this year. That is one approach.

The other is again treading the familiar path of the specific approach, and you will recollect how in 1959 Mr. James, at a late stage of the Inquiry—it is on page 436 of the 1958-59 Hearing—put in an Exhibit, PJ16. Last time, in 1961, at page 45 the Commission put in a table AE6, bringing that calculation up to date; now we put before you another Exhibit, AE4, which I trust is in front of you, re-doing the table that was put in last time, re-doing it because now, instead of forecasts, we have actuals for 1960 and 1961 and we are better able to make the forecast of the figures for 1962. The figures are therefore more accurate and contain less element of estimate than the previous table as far as the years 1960, 1961 and 1962 are concerned, and you will see that they bring out, in column 14, the total Central Charges for 1962 at exactly £7.4m. I think that is a little less than was forecast last time; I think actually it is a little more, but there have been, of course, variations when the surplus of deficit for the year has become known. At any rate, that is the firm figure of the specific approach which was explained at great length in past Inquiries, and which I shall certainly not attempt to explain at this part of this Inquiry.

(President): Before you pass on, Mr. Fay, would you look at AE4, column 3 for 1960. The internal financing is put at £3.42m., is it not?

(Mr. Fay): Yes, Sir.

(President): How does one reconcile that with the figure under the column headed "1960" in Exhibit AE3; is it £3.7m., the depreciation provision, less the overhead costs?

(Mr. Fay): Yes, Sir; it is line 4 less line 5.

(President): In other words, it is taken to two places of decimals?

(Mr. Fay): Yes, and it omits the revenue margin, because that enters into this table in another place. I think that is reconcilable, Sir.

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[Continued]

That is the way the case is put for Central Charges now being properly assessed at £74m., and going back to Exhibit AE1, one sees that that throws up a surplus of £14m. after paying Central Charges, and this is the stage at which I think I should say a word about the question of reserves.

As you know, it has been the consistent contention of the Commission that its activities ought to produce a surplus available for self-financing, and in the nature of things that surplus for self-financing naturally falls into two parts; firstly, that required to deal with the replacement of assets at current prices instead of at historic cost, the second part being further self-financing over and above that replacement element.

You have heard many authorities cited in the past in support of the view taken by the Commission that there should be a surplus for these reasons, and I personally have always thought that the reason for the stand taken by the Commission in these matters has never been better put than it was by Sir Oliver Franks, as he then was, in a passage which I cited, I see, in the 1958 Inquiry at page 19. If you will allow me to do so, I would like to re-read a little of that extract.

Lord Franks was then making his annual Chairman's speech to the members of Lloyd's Bank, and dealing with the general economic position of the country (this was in 1956) he criticises the finances of nationalised undertakings in these terms: "What may be criticised is pricing policies that render the Public Corporations as a whole incapable of providing even for the replacement of capital used up in their current operations, far less of financing new capital expenditures. In round figures, it appears that in 1955 more than £300m. was needed to maintain intact the capital used in these industries, yet the combined surpluses of the Public Corporations themselves covered barely half of this. The remaining half, together with the whole of the funds needed for new investment, had to be raised by borrowing—to the tune of more than £400m.—savings generated in other sectors of the economy. What would be thought of the future of any private enterprise that failed to provide even for the maintenance of capital? The contrast with private industry is very marked indeed. It seems clear that, in relation to their costs, the nationalised industries as a group have been fixing uneconomically low prices for their products".

As I think I said in that opening speech in 1958, that was a criticism which the Commission accepted as being just, and wanted to avoid in the future. The gravamen of the criticism is that money which is used either for replacement or for expansion has to be found somewhere; if it is not found within the undertaking, it has to be borrowed, and if it has to be borrowed, it has to be borrowed from moneys saved by somebody else; and if nationalised industries consistently borrow other people's savings, then they are undermining the economy by drawing on funds which ought to be available for other purposes to a greater extent than they are, owing to those borrowings. That was the view which was put forward; there was a great deal of debate associated with the name of Mr. Lawson, as he then was (and, I suppose still is until he receives the accolade which we were delighted to see last week that he will receive) and part of which your Tribunal gave in the Interim Decision, with its figure, to which I have already referred, of £24m. surplus to be aimed at which led us, rightly I think, to feel that the Tribunal had at all events been partially converted.

(President): How do you know the Tribunal needed converting?

(Mr. Fay): Well, Sir, we have not always had surpluses of that order in the past; we have not always had it, in consequence of reductions in maxima for which we have asked, and I accept the criticism that the Tribunal may not have needed conversion, but for one reason or another the surpluses had been, in consequence of Orders of the Tribunal, certainly not as great as that figure of £24m.

The conversion, if it were needed, has, I trust, now been complete; because, now, as you know (it came just too late for the last Inquiry) the Government has officially supported the view which has been propounded by the Commission, and indeed by other persons, for many years.

In that connection, Sir, I would like if I may to refer to the White Paper giving the Government's views on this very matter. This is a White Paper entitled "The Financial and Economic Obligations of the Nationalised Industries", and it is Command Paper 1337, presented to Parliament in April, 1961. The early part of this Paper is devoted to considering the facts, and the criticisms such as that I have just stated, drawing the distinction of return on capital in private or non-nationalised businesses and the return on capital in the nationalised industries, and if I may start by citing from paragraph 15 on page 6, it goes on to say this: "These considerations readily account for the low return on the capital of the nationalised industries in relation to that on industrial and commercial capital generally. It would, however, be unwise to ignore the risks of damage to the nationalised industries themselves and to the economy generally that are inherent in the present situation. If the profitability of capital development is assessed on different (and easier) financial criteria from those adopted in industry generally, there is a risk that too much of the nation's savings will be diverted into the nationalised industries"—one feels that the draftsman had already been reading Lord Franks. That paragraph goes on: "Again, if the prices of the goods and services which the nationalised industries provide are uneconomically low, demand for them (and for investment to produce more of them) may be artificially stimulated."

Paragraph 16 reads: "Thus the operation of the nationalised industries with an unduly low rate of return on capital is sooner or later damaging to the economy as a whole. It must result either in higher taxation or in greater borrowing by the Exchequer in order to provide for the replacement of their assets and for new development. The figures in Table IV show the scale on which these industries are drawing on the rest of the economy. For the reasons already indicated, the nationalised industries generally have had to rely more heavily upon the Exchequer than is healthy, either for themselves or for the economy as a whole. It is important, therefore, that a careful watch should be kept on the financial and other obligations of the Boards so as to ensure that a reasonable balance is maintained between them: such a balance can readily be disturbed either by the growth of non-commercial activities or by a reduced capacity on the part of the industry to bear them".

Then, in paragraph 17: "In the Government's view, there would be no advantage in altering the basic financial and economic principles which the nationalised undertakings are, by their Statutes, required to observe. If, however, these principles are to provide a satisfactory basis for their operation in the public interest they need to be interpreted more precisely in the form of financial objectives for the nationalised undertakings generally".

Then paragraph 18: "The main heads under which clarification or restatement of the obligations and relationships envisaged in the nationalising Acts is needed are as follows: "Revenue Account; Capital Account; Prices and Costs".

Then I read the next paragraph, which is the meat of the matter as far as the support of the present Application is concerned; that is paragraph 19: "The Government consider that the financial objectives of the nationalised undertakings under their Statutes should now in general be interpreted on the following lines:—(a) Surpluses on Revenue Account should be at least sufficient to cover deficits on Revenue Account over a five-year period: in arriving at the surpluses and deficits for each year there should be charged against revenue the items normally so chargeable (including interest, and depreciation on the historic cost basis). (b) Provision should also be made from revenue for:—(i) such an amount as may be necessary to cover the excess of depreciation calculated on replacement cost basis over depreciation calculated on historic cost as in (a) above. (ii) adequate allocations to general reserves which will be available *inter alia* as a contribution towards their capital development and as a safeguard against premature obsolescence and similar contingencies".

There is, in terms, a statement of public policy which I cite and rely upon as justifying the Commission's unchanged view that there ought to be a substantial surplus

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aimed at as a result of the operations of their various activities. The division of the object of the surplus into two halves corresponds with the presentation that has been made to this Tribunal before, described as replacement reserve on the one hand and general reserve on the other; and I would submit that this view shows that there ought to be, as a matter of public interest, and in the public interest, a surplus sufficient to do two things: Firstly, provide the uplift from historic to replacement costs of depreciating assets; and secondly a further amount, the size of which must be a matter for judgment exercised in the circumstances of the individual undertaking.

Well, Sir, there is plenty of scope for debate as to where that judgment on the second matter should lead one; but there is very little scope for debate on the size of the surplus on the first, because that has been calculated in the past, and has been calculated afresh by my clients for this Inquiry.

The amount, in the case of London Transport, which is required to lift the historic cost depreciation in the present year from its historic cost figure to replacement figure, is £1.7m.; that figure alone, as you see, is greater than the surplus which is thrown out by the calculations in Exhibit AE1, and it means that this proposal in fact falls short by £0.2m. of what really ought to be the minimum surplus—a minimum calculated in the way indicated in the White Paper.

I am aware that this fact lays my clients open to the reproach that we have not asked for enough. I doubt whether that reproach will come from my learned friends, but it may come, and if it does come, I would say that it is the result, in present circumstances, of the Commission's decision to confine this Application to the increases sanctioned under Section 23, which involves—

(President): All this assumes that you are right in putting the 1962 Central Charges into the £7.5m.?

(Mr. Fay): Yes, indeed; if we get £0.3m., then we should have just enough, and if they were less we should have that little more for the second branch of that which provision should be made according to the White Paper. But, as I say, this would follow, judged against the minimum requirement for replacement reserve, as the result of asking the passengers to pay no more than the amount by which the wages and prices have increased, the sum already mentioned of £2.7m.

I can perhaps make this further answer if the Commission is reproached for not asking for sufficient, saying that the picture on the London Lines of British Railways is better. As we shall see, it is difficult, in present circumstances, to put a firm figure upon their Central Charges; but on one view of the matter, and on taking the Central Charges of British Railways, London Lines, at the minimum at which anyone could reasonably put them, there is a surplus which would enable one to make up on the London Line swings some of what one has lost on the London Transport roundabouts; so I had better come at once to London Lines and see how they contribute to the present picture.

London Lines was for long the Cinderella of these Applications, but thanks to modernisation, the fairy godmother has arrived; traffics are buoyant and gross receipts are increasing. That fact is one which can bring comfort to where previously the position was the reverse; indeed, gross receipts have increased very considerably over the past few years in consequence of the modernisation of a great deal of London Lines of British Railways. I know that if one goes back to the 1958 Inquiry, one finds that the London Lines budget in the tables for that year was £27.9m. You will see that the budget for this year, 1962, is £36.2m., so there has been an increase in budgeted gross receipts, of £8.4m. in four years. Of course, the major part of that increase is increased fares in the interim, but there does remain a considerable element which I have not myself endeavoured to isolate, of betterment in the receipts, increasing traffics and increasing returns; that, as I say, is the fruit of modernisation. It accounts for British Railways, like London Transport, asking the travelling public to pay so much less in consequence of this Application than the increase in total expenditure. The yield of what is the subject of this Application, as I have already said, is no more than £700,000.

If it had not been for the increase in gross receipts the London Area passengers as a whole would have had to have been asked for a great deal more, because there has been a large increase both in working expenses and in the central charges on London Lines. May I deal first with their Central Charges. The increase in gross receipts—which is, I hope, the subject of congratulation—has not been obtained without investment, and one can see that we now have the fruits of modernisation but in consequence we are getting the bill for the fertiliser; that is shown partly by the rise which you will have already noted in these total Central Charges of British Railways. I gave the figures earlier on: They have risen from a figure of £42m. in 1959 to an estimated figure in this year of £55m. That accelerating increase in British Railways Central Charges is due, of course, to the vast expenditure, the vast capital expenditure, on modernisation which has been incurred in recent years. The interest on the borrowings has to be met but, as you know, owing to the operation of that somewhat obscure Act the Transport (Railway Finances) Act of 1957, the effect of those borrowings and the effect of the interest charges on those borrowings is not felt on Central Charges as such until after a time lag of between three to four years. What is happening now is that the British Railways Central Charges are going up because for the first time there is coming into Central Charges the interest on money borrowed four years ago.

I think it would be right to refer to the provisions of that Act of 1957 to indicate why this is so. This three to four years' delay between the incurring of the interest charges and their getting into that part of the accounts called Central Charges stems from the opening part of the Act, Section 1, sub-section (1), paragraph (a): "The borrowing powers of the British Transport Commission . . . shall be extended as follows: (a) the purpose for which money may be borrowed by the issue of stock under sub-section (2) of Section 88 of the Transport Act 1947, or by taking advances under Section 42 of the Finance Act 1956, shall include the payment of the interest on capital moneys borrowed by the Commission for the purposes of British Railways in the year 1956 or any of the next nine years (including moneys borrowed in any such years under this paragraph) being interest accruing not later than the end of the third year after that in which the moneys are borrowed".

So far there is nothing about the Special Account, but the Special Account depends upon this, and if I understand this part of Section 1 rightly, it gives power to borrow in order to pay the interest on money borrowed for the capital purposes of British Railways in 1956 and the following years.

Then by reference to that borrowing power, when one comes to Section 3, dealing with the Special Account, one sees sub-section (2): "In the accounts for the year 1956 the amounts to be carried to the special Account are (a) any interest accruing during the year and falling within paragraph (a) of sub-section (1) Section One of this Act". So that interest, the interest on borrowing the money to pay the interest on the capital and the interest itself, go into the Special Account.

The following year is dealt with in sub-section (3): "In the account for the year 1957 or any subsequent year the amounts to be carried to the Special Account are (a) the amounts shown in the Special Account for the preceding year, and (b) any interest accruing during the year, being interest which is or can be met out of moneys available under this Act".

The effect of that, as I understand it, and as it is carried into effect in the accounts of the British Transport Commission, is that if you incur interest on modernisation borrowings, the interest is debited to the Commission but credited to Special Account and it does not emerge from Special Account until at the maximum four or at the minimum three years later; it depends on the Special Account in the year in which it is incurred and the three following years, but in the next year it emerges. Of course the reason behind it is plain enough to see, as, indeed, was said, I think, in Parliament when this Bill was progressing through Parliament. The reason is that there is a time-lag between the investment of the money and its fructification, and it was thought right

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to relieve the Commission of the duty to raise additional revenue to service this part of the capital for the period during which it might be assumed to be not earning its keep.

The relief of the Commission from the duty is subsection (4) of Section Three, which reads as follows: "For the purposes of subsection (4) of Section Three of the Transport Act 1947 (which puts on the Commission a duty to secure that their revenue is not less than sufficient for making provision for the meeting of charges properly chargeable to revenue, taking one year with another) the Commission shall not be required to have regard to any interest or deficit so far as it is for the time being represented by an amount standing in the Special Account." There is no Statutory duty as such to adjust charges to meet this interest until it emerges from the Special Account, if I correctly read the Act. A great deal is emerging, as you have seen from the figures of Central Charges of British Railways, from the Special Account, and when it does emerge it is the Commission's legal duty, quite apart from any commercial duty they may have, to adjust their charges to meet it; and that is why one finds that the Central Charges of British Railways London Lines have increased considerably in the last few years.

There are various methods of arriving at the Central Charges of British Railways London Lines. It must always be a matter in some degree of estimation, of course. In 1953 you will recall that the Tribunal in their memorandum accepted a figure of £2m. for those Central Charges, that figure having been put forward by the Commission and arrived at by dividing the Railways' total Central Charges pro rata to working expenses. Mr. Winchester did the same calculation last year and found it produced approximately £2.1m. Doing the calculation again this year—that is applying the ratio of working expenses to the Central Charges of £55m. for the Railways as a whole—it produces a figure of £3.3m. or, if one rounds it up to the nearest half million pounds (as Mr. Winchester has in the past in dealing with London Lines), £3.1m. If one does the proportion sum pro rata to gross receipts it comes out a good deal higher, well over £4m.

When dealing with increases of this order it is no doubt right to examine them carefully to see how London is being treated by a division of this kind. If all the modernisation had been outside London and none within it would, perhaps, not have been right to take this plain proportion; but, as I suppose every traveller knows, there has been a very great deal of modernisation expenditure inside London and it is indeed that which has produced, as we say, the welcome increase in the gross receipts. I refer to such major matters as, in effect, the provision of a complete new suburban system of trains from Liverpool Street and I think the now just completed electrification of the Fenchurch Street Line. In order to see, by a test on a more specific basis, how this increase in Central Charges affects London, Mr. Winchester has prepared an elaborate calculation to see just what London's expenditure has been and just what share of British Railways' Central Charges ought to be attributed to London. Could I ask you to look at that calculation, which is Exhibit WW2.

(President): Throughout your address, Mr. Fay, by "London", of course, you mean the London Area?

(Mr. Fay): Yes, of course; the London Area as defined in the scheme.

(President): Before we look at this, this again all depends upon whether the assessment of Central Charges for British Railways as a whole, the £55m. is right?

(Mr. Fay): Yes, indeed. At least, what I said about the proportion sum does, but WW2 does not, because with the aid of WW2 I can do this: I can say: Go back to 1953. The Tribunal then said £2m. and that has never been substantially queried: it has, I think, been generally accepted as right as from that time. Inquire how much actual interest burden has been imposed directly upon the London Lines since 1953 and then add the result to the £2m. That avoids the dividing up of the sum attributed to British Railways as a whole and avoids enquiry as to whether £55m. is right and whether it is a fair proportion according to any given formula. This is more specific and I trust it will be valuable.

What Mr. Winchester has done, as you will see, is summarised by his headings: "Estimate of Additional Interest Charges Arising From Capital Expenditure Incurred In The Years 1953 To 1962 On Modernisation Schemes In Service"—and I emphasise "In Service", it omits further expenditure not yet fructified. Of course that is the usual difficulty on London Lines that a good deal of expenditure is joint with facilities which are not facilities upon the London Lines; but, on the other hand, some of it, as you will see, is peculiar to London Lines itself.

The first item of expenditure is £9.6m. upon the electrification to Enfield, Chingford and Bishop's Stortford, and as that is all within the London Area, it is all London Lines. The next scheme is the augmentation of Shenfield Service and the conversion of the electrical supply to alternating current: that in total costs £3.1m., of which the proportion attributed to London Lines—and it has been divided according to the proportion of journeys, as I understand it—is £2.3m. Then there is the big item of the London, Tilbury and Southend Lines, wholly London Lines, of £18.3m. The biggest figure is the next one, the Kent Coast Electrification, but of that only £3m. is found properly to be attributable to London Lines. And so on with the next sub-heading, which is a word which I am afraid I deplore—“Dieselisation”, where one sees the expenditure upon the diesel sets which now provide so many of the services on the London Midland and Western Regions as well as the Eastern Region. Then there is the extra expenditure further down on the rolling stock, London, Midland and also Southern, again divided where necessary between the London Lines proportion and the other. There is a change of electricity supply frequency under Southern, most of which is attributable to London Lines. For those major schemes the London Lines' part adds up to £63.4m., which Mr. Winchester rounds to £63m. He then adds in a sum for minor schemes within the London Area, which is £7m., and finds a total investment for the period, that is 1953 to 1962, of £70m. Of that amount some was self-financing by the product of the depreciation provisions and that has been calculated at £12m., so the amount of borrowing required in respect of London Lines was £58m. The average rate of interest at which it was borrowed was 5½ per cent and that, again rounding it as he has, brings a total interest figure in respect of schemes completed of £3m.

On one view of it, since it is in respect of completed schemes, that figure of £3m., added to the base figure of £2m. which was found in 1953 and has been accepted since, ought to be the Central Charges of London Lines; but it will be said, and no doubt rightly, that one cannot ignore the provisions of the Act which I cited to you; that not all of this £3m. has yet emerged from its hibernation in the Special Account, and the amount which has emerged is about £1m. So we there get an estimation of the Central Charges of London Lines which starts with the basic £2m. and adds to it a minimum of £1m., that being the part which has emerged from hibernation, making £3m. as a minimum, or a maximum of £2m. plus £3m. making £5m. at the outside the other way. Bearing in mind that the proportion sum which has been accepted through the years produces £3.3m., I would submit that the Tribunal ought to take something above the minimum of £3m., particularly for this reason: The object of the temporary sojourn in Special Account, as I indicated, was clearly not to cast an interest burden on an undertaking which was not yet earning the product of the investment, but in the case of these improvements London Lines is earning the product of the investment and it is because of this investment and this interest charge—all of which has eventually got to be paid—that it is earning what it is. If one takes into account the increase in gross receipts, in my submission, one ought to take into account the interest whether or not it has technically got into Central Charges or whether it is still partially in Special Account, otherwise the position would be that in future years one would find jumps in the financial requirements unassociated with any jump in the gross revenue. The time to take the share of the extra capital is the time when fructification ensues; fructification of these schemes has ensued and, accordingly, in my submission they ought to pay, as from the time when they fructify, their proper Central Charges. In my submission that is a proper way

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of regarding the exercise of dividing up the Central Charges of British Railways and seeing how much ought to fall upon London Lines. It is to be emphasised here that while this London expenditure has fructified early—that is while it is still on Special Account—the reverse is true with much of the expenditure outside London, particularly in connection with freight. Money has been expended and it has been expended more than four years ago; the interest upon it has emerged into Central Charges, but it has not fructified, it has not produced the income to services. Here you have got the converse case where there is productivity directly derived from the investment, and it would be wrong, in my submission, to cut down Central Charges to the minimum which these figures allow, the minimum of £3m.

The other factor affecting the finances of London Lines of British Railways is, of course, their working expenses, and this year you will hear that Mr. Winchester has re-assessed those working expenses following, broadly, the methods used previously I think in 1954, when it was done at the request of the Tribunal in the previous year, and also in 1958; but for one reason and another it is now possible to make a far firmer estimate than previously of the major factor in those expenses, namely the movement expenses. The reasons why it is possible now to make a better estimate are: Firstly, that separate accounts are now kept by the Regions for the new electric service and the new diesel service; they are kept separately and are therefore readily available; and, secondly, that detailed costings of many of these services have been made for other purposes and are available for the information of this Court. Mr. Winchester will tell you that the movement expenses, amounting, as I say, to more than half of the total expenditure, are now largely factual. The other expenses, the joint costs, of course, have to be apportioned and to be the subject of estimation as before; and I trust that Mr. Winchester will satisfy you that he has erred (if at all) against himself in estimating those expenses. He thinks they are underestimated.

(President): Is not the assessment of the part of the movement expenses which ought to be charged against trains coming from and going to places outside the London Area a matter of estimation?

(Mr. Fay): Yes, it is; that is why I qualified "factual" by the word "largely", in saying that the movement expenses were largely factual.

(President): Are you saying they are more factual than the track and signalling section?

(Mr. Fay): Well, Sir, I am coming to the total which I dare say you have in front of you on WW1, but the greater part is movement expenses, local trains, which is a fact. There has been a re-assessment of the contribution.

(President): You mean trains which do not move outside the Area?

(Mr. Fay): Yes. As you see, that is £15½m. out of a total of £18m. The area of estimation is less than before.

WW1 sums up the position of London Lines as it is seen and as I put it before the Tribunal. It is a familiar type of document. As you will see, it starts with passenger receipts at a figure of as high as £36.3m. (that is before the section 23 increases) and it adds, in order to produce a future year's position, £0.3m. for the full year's effect of the electrification of the Tilbury Line. That electrification is either just completed or just about to be completed and approximately half of its effect is in the first line, because there is approximately half of this year, 1962, to be considered; the other half Mr. Winchester has added to get his total estimated receipts in a full year at £36.4m. Mr. Winchester will explain his calculations in detail, but then the movement expenses, which as I say are more than half of the total £18m., contain a quite firm figure of £15½m., an estimated figure of £2½m., and the rest, the joint costs of terminal and documentation expenses, track and signalling and general administration have been apportioned as they have in the past, but, so far as track and signalling are concerned, upon the results of fresh tests in some cases, as you will hear. Really, this is not merely a bringing up to date of an earlier estimate as was done last time, but a fresh calculation and the figure can be put forward with that much more confidence accordingly.

The total of those expenses is £34m., leaving a margin of £2½m. at present charges. Then the next line is called "Estimated Yield of Proposed Increases" and there is a reference to a later document. I am not sure that "Proposed Increases" is a happy phrase; they are, of course, all in force as from yesterday and they are composed of three different elements. The increases which are pulled together in that line at £13m. are: Firstly the January 1st seasons; Secondly the effect of the increase of one farthing on ordinary fares, together with the concessionary fares which follow it; and, Thirdly, the result of this Application. Those are the three elements, and if one runs (as this table does) to the nearest £½m., they are £1m. each. The figures to two places of decimals are: Stage three seasons (that is the January 1st authority) £0.50m.; ordinary fares £0.44m., and the product of this Application £0.70m., adding up to £1.64m.; but, as I say, if they are rounded as in this table, they can be regarded as £1m. each.

That table ends with net receipts before Central Charges of £4m. How much there is after Central Charges, of course, depends upon how much the Central Charges are put at. I have already indicated that they can be put somewhere between a minimum of £3m. and a maximum of £5m. If they are put anywhere near the maximum—as in my submission they should, because the schemes which incur the interest have fructified—then there is no surplus over and above Central Charges. If they are put at the minimum of £3m. or thereabouts, then there is a surplus of something up to £1m.

In the circumstances of this case and in the circumstances affecting the Central Charges, in my submission, one cannot go further with the calculation than that; and when one finds that there is £4m. available for Central Charges and, if the Central Charges are less, for reserve, then that is an outcome which cannot be regarded as in any way excessive and may indeed suffer from the same demerit as the London Transport outcome, namely of not asking for enough. Mr. Winchester will say that in his view London Lines ought to have a surplus, after it has paid its Central Charges, of £1m. at least because of its future commitments. Of course if one takes the lower sum of Central Charges one has to face the fact that year by year further sums emerge from hibernation and fall to be serviced without there being an increase in gross revenue to service them.

(Adjourned for a short time)

(Mr. Fay): I had almost completed what I have to say about the London Lines of British Railways. There is one fact yet to be given, and that is the amount of the replacement provision required to raise the depreciation in respect of the depreciable assets of the London Lines of British Railways from historic to current costs: That amount is £0.3m. Both that figure of £0.3m. in respect of London Lines of British Railways and the figure which I gave this morning of £1.7m. in respect of London Transport are the minimum figures of Replacement Reserve—minimum in this sense, that they merely raise whatever existing historic-cost charge there is for depreciation to the new price levels; they do not provide a sum sufficient for the whole of the replacement at the new price levels, for two reasons, one is that they do not bite at all upon assets which are time expired and therefore have no historic-cost depreciation to be charged, and the second is that these figures do not attempt to job back—recoup the deficiencies in past depreciation in past years.

(President): They would be going beyond the White Paper if they did the second of those two?

(Mr. Fay): They would be going beyond the footnote in the White Paper, which says in the face of two elements the nationalised bodies would not be asked to do more than we are doing, but one of the objects of the second element in a surplus must, surely, be to provide for the completion of the self-financing for replacement, and the point I wish to make is that what we are doing when we give these figures is not providing a sufficient surplus to self-finance all replacement—not by far; one has to draw upon what would be called General Reserve, or the second half of the White Paper surplus, in order merely to keep the Undertaking in its present state. So that entries in the second part of the surplus are not necessarily money for financing expansion.

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That is all I have to say about London Lines, and I have very little more to say by way of opening. May I come on to look at the proposals for meeting the deficiencies and to consider both how the burden is spread among different classes of users of the organisations concerned, and how the yield is calculated, and in this connection may I ask you to look at Mr. Robbins' Exhibits which are designed with the initials "RMR".

I pass over RM 1, which is, as before, part of the Proof which it is easier to put into a document than on to the Shorthand Note.

RMR 2 demonstrates how the receipts side of the budget for 1962 for the London Transport Executive has been arrived at. It starts from the 1961 budget which was mentioned last time; it adds in the effect of the increases in London Transport's fares on two stages last year, and it therefore lifts last year's budget to £87.7m. London Transport has always prided itself on the accuracy of its budgeting, and I do not know whether it claims credit (probably it does not), but, in point of fact, last year's budget, so adjusted by the increases of fares, was almost completely accurate as a forecast, as one can see from the next Exhibit, RMR 3, which is the familiar "League Table" which we have had for many years now, showing the receipts budget week by week and setting against it the actual receipts, and showing the deviation both weekly and cumulative. One sees that the budget figures here went up in the first part of the year, and in the second part of the year they declined; the total result at the bottom of the first two columns of figures is that against the budget of £87,740,000 there was realised £87,707,000—a difference so small that it does not even show as one-tenth of one per cent.

In RMR 2 Mr. Robbins goes on to make adjustments for last year in respect of, first of all, the mild winter in the early part of last year, for which he adds £0.2m.—and then he takes it off again by deducting £0.2m. for the trend and for other causes, thus accounting for the actual receipts of 1961. The "weather bonus", in fact, offset the trend and other causes, among which were the general air of depression which followed the little budget of last summer. That accounts for the actual receipts of 1961.

The 1962 budget, which goes into the forward forecasts, is constructed from the figure in the way indicated in RMR 2. First of all, there is added in the balance from the effect of the 1961 fares increases, bringing the figure up to £89m., and then there are adjustments made, first of all a calendar adjustment; secondly, the taking out of the effect of the mild winter in early 1961 on the supposition that the first half of this year would revert to normal (and how right that was!); thirdly, adding on £0.1m. as the effect of the modernisation of the Metropolitan Line; fourthly, taking off £0.1m. because that which was part of the Metropolitan Line, between Amersham and Aylesbury, has been transferred from London Transport to British Railways and ceases to appear in London Transport's figures.

(Mr. Phillips): That is the net receipt?

(Mr. Fay): No, it should be the gross. In calculating expenses, a similar adjustment has been made in respect of the expenditure on that part of the line. Then another £0.2m. is taken off for the continuance of the declining trend and other causes, which produces the budget figure of £88.7m. for 1962.

If one looks at RMR 4, one sees how that budget can be compared with the actuals for this present year. In RMR 4 the budget figures week by week have been adjusted for the increase in fares which took effect, first of all, on the 15th April, and, secondly, yesterday, so that the final figure is raised from the original budget figure of £87.7m. to the new figure of £90,536,000 appearing at the bottom of the two columns, and you will see that, unfortunately, this year (no doubt the weather is already partly to blame) we are lagging behind.

The cumulative figure down to the end of the week ending 20th May shows that the receipts are £127,000 below the budget forecast.

(President): I do not quite understand RMR 4; it is the budget for 1962?

(Mr. Fay): Yes.

(President): Up to the 20th May?

(Mr. Fay): Yes.

(President): Apart from causes which you cannot control, why do you bring out a total for the year of £90.5m., whereas your last figure in RMR 2 is £88.7m.?

(Mr. Fay): Because one has to add in to the practical budget which appears in RMR 4 the product of the increases in fares which are now in effect. The original budget, no doubt, looked like this, but added up to the figure which you have mentioned of £88.7m.; but as from the 15th April, for example, the 5d. and 8d. fares went up, and, accordingly, in order to compare the actual receipts thereafter with the budget an adjustment had to be made to the budget.

(President): In other words, the figures, given and actuals, up to the end of the week ending 20th May have been changed because of the new fares put into operation?

(Mr. Fay): No, the fares headed with the words "Actual receipts" are in fact the actual receipts. What has been changed is the column headed "Budget", and as from the 15th April that will show a different figure in this table, as compared with what was originally forecast. The whole purpose of a budget is to ascertain what you ought to get, and what you ought to get can be projected only at the fares you know you can charge. When this budget was prepared it had to be constructed on the fares then in operation.

(President): Therefore the weekly-budget figures are the original budget figures plus the results of the fare increases anticipated which have, in fact, been made?

(Mr. Fay): Yes.

(President): That is both the fare increases under non-exhausted powers and fare increases under the temporary Order under Section 23?

(Mr. Fay): Yes; it will correspond with the big table showing the gross receipts and yields in the usual form for the whole of the Undertaking.

That is the position to date. The budget, certainly tested by the results, does not overstate the receipts—rather the reverse. The deviation, however, is not significant.

Now I come to a series of tables demonstrating the actual increases which are asked to be authorised at this Inquiry. First of all, RMR 5 deals with the ordinary fares of London Transport (this is London Transport and the London, Tilbury and Southend line). This is in a similar form again; it shows in column 3 the fares which are, in fact, in operation to-day and which were brought into force yesterday, except the two marked with an asterisk. They are compared with the pre-existing maximum fares in column 2, and the increase is brought out in column 4.

First of all, one sees that the 3d., 6d. and 9d. fares take no increase at all. Then, apart from the two which were brought into force on the 15th April, there is at and after four miles an increase of 1d. in each mileage fare up to 15 miles; thereafter the increase is 2d. on the fare up to 22 miles, and thereafter on the higher ranges, as you see, rising to 9d. at 50 miles—although whether anybody makes a journey of 50 miles on the London Transport Railways or the London, Tilbury and Southend line is doubtful. The higher ranges of this table largely affect British Railways only in that it is twice the figure in column 3 which is the day return for British Railways. How generous that is now working out can be demonstrated by the fare for 30 miles, which is now—and which is sought to be made permanent—at 5s. 6d.: on British Railways the fare for 30 miles is now 3d. per mile and is 7s. 6d. So the result is that on British Railways the single fare is 7s. 6d., and the day return will be twice 5s. 6d., which is 11s. 0d. That shows the substantial concession these day-return fares offer.

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The table is constructed to spread the burden among the different users, and there has been, as we shall see when we look at the Objections in outline, objection to the abolition of the 5d. and 8d. fares for half and $2\frac{1}{2}$ miles. Unless these fares took an increase there would be no practical way of imposing any part of the additional burden on the short-distance travellers, and it is desirable that they should bear some part of the burden, because there are so many of them; how many there are can be demonstrated rather graphically if I state that the product of those two increases—5d. to 6d. and 8d. to 9d.—is one half of the whole of the increases shown in this table in terms of ultimate yield. There is, in fact, a net yield on those two fares of £11m., and the yield of the whole of the increases in this table is £24m.; it is exactly half which comes from these two fares at this short range. A great many people are concerned.

I may add that if, as the objectors are asking, those fares are restored, it will involve two things: firstly the ordinary fare-paying passenger at the higher mileages will have to pay very much greater increases than they are being asked to now, and secondly it will introduce half-mile charging into the table very considerably up the table, by reason of the mathematics of double booking. For example, you will observe that the four-mile fare is being raised from 11d. to 1s.; that would be impossible without there being added a $3\frac{1}{2}$ -mile fare at 11d. as long as the low half-mile charging stood, because anyone who travelled $3\frac{1}{2}$ miles could, by taking a ticket for $1\frac{1}{2}$ miles and then another for two miles, travel $3\frac{1}{2}$ miles for 11d. Therefore one would have to insert a $3\frac{1}{2}$ -mile fare at 11d. if one were putting the 4-mile fare up to 1s. and so on; it would go on "way up the table and produce big difficulties in fare collection and in staff to operate it, which have been explained to the Tribunal on previous occasions.

The proposal is a fair one; it spreads the burden and includes the short-distance travellers among those who bear the burden, and it produces a table which, for commercial reasons, can be readily dealt with by the staff. That is the ordinary.

The next three sheets are three sheets of one exhibit, RMR 6, and again they are in a form which has become familiar. This exhibit shows the effect of the increases in the monthly season-ticket rates. Let me say at once that this comparison is a comparison of the new rates which came into force yesterday (that is in column 3) with the old maximum in column 3 and not with the old actual—that is, the maximum which could have been put into force on 1st January last but was one. The increase is, as you see, by the large 5 per cent (that is column 5).

The last two columns, 6 and 7, as usual, bring out the rate of discount which the season-ticket holder gets, assuming he makes a journey six days per week—and it is a fact, I think, that the new scale is in fact slightly more generous to the season-ticket holder, at any rate at a majority of the distances, than was the old; one sees that at four miles, eight miles and nine miles the discount now is a little better than it was, and similarly with all mileages from 23 upwards. There is not much in it, but it shows that the season-ticket holder is not getting any worse a bargain.

The few following sheets bring out the same factors in relation to the weekly and three-monthly tickets and call for no comment.

RMR 7 makes the comparison between the new monthly-season scale and the old actual scale—that is to say the maximum before the 1st January, which was the actual down to yesterday—and it shows that once one gets beyond the first few miles the total increase in practice is of the order of about 10 per cent. It is about 5 per cent in each of the two increases, and they were both put on at the same time.

Then we come to the key table of Mr. Robbins', RMR 8, which shows the budgeted forecasts of receipts, by organisation and by fare category, for what is described as a future year and is in fact 1962, adjusted in some cases, and this follows so familiar a pattern that I think I need do no more than call attention to certain features which have to be borne in mind this year; I have already

mentioned them, but they recur here. They are there associated with the footnotes. Under British Railways London Lines, in column 4, you will see the discounted yield on Item 1—ordinaries, etc.—is given as £640,000; of that sum, only £200,000 is the subject of this present application, because the balance of £440,000 is the product of the increases in ordinary fares by 4d. under the existing headroom. That is mentioned in the asterisked footnote and is something which has to be borne in mind when one is disentangling that which is asked for by this application from that which is being totally obtained here within or without the application. Similarly in the next line, Item 2, season tickets, and the same column 4—the £1m. discounted yield is split equally between the 1st January increases in seasons and this application's increases of seasons, both of which were embodied yesterday. That disentanglement as regards the season tickets also applies to the London Transport Railways' share in columns 7 and 16. The figure of £290,000 falls to be split in two; only half of it is the product of this applicant; the other half is obtained under the pre-existing powers. There is a note at the bottom which is of importance; it points out that the figures above are the budget figures for 1962, and so far as column 2 is concerned—that is British Railways London Lines—the only service alteration to be introduced in 1962 is the electrification of the London, Tilbury and Southend Line (from June) which it is anticipated will produce additional receipts of £250,000 in 1962 and is included in the figure. When Mr. Winchester was preparing RMR 1 he added in the rest of the anticipated year's receipts to give a full year's figure.

I have already given the yields of the increases as between British Railways London Lines and London Transport. I do not think any useful purpose is served by my calling attention to the distribution between railways and buses, and I pass on to mention that the next and last table, RMR 9.

(President): 15th April is merely put in as the date because it is the day before the application; nothing else happened on that day, did it?

(Mr. Fay): It was the day the 5d. and 8d. fares went up—the first of the increases.

(President): I see; the abolition of the half mile?

(Mr. Fay): Yes.

(President): That is the day before the formal application.

(Mr. Fay): I think 15th April was the heading of this table to indicate that this is before any of the increases which we are inquiring into.

(President): Both 16th and 15th are in the heading of the table; obviously, the 16th is the date of the formal application.

(Mr. Fay): Yes, but the 15th, which appears is—

(President): —the date of the alteration in those two fares?

(Mr. Fay): Yes. Finally, RMR 9 is the usual table bringing together in convenient form the manner in which the discounts have been assessed in reducing the gross to the net yield, and in the case of the road services—of the Central road services and Country buses—there has been an assumption of loss of many passengers and of a drop back of passengers to the next lower fare in calculating the discount in yield. That follows what has been done on previous occasions and has generally proved not out of line with what has happened.

That concludes all I have to say about the case pro-pounded by my clients.

It would be right to have a look at the Objections lodged, before calling the evidence. There are 25 Objections; if you have them before you I shall go through them rapidly and in numerical order.

The first off the mark is, one is glad to say, our old friend Mr. Ruler of the Federation of Residents' Associations in the County of Kent, whose Objection has the merit of succinctness: "The British Transport Commission has not proved that the Southern Electric is making a loss". I pass from that without comment.

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[Continued]

The next is from the Borough of Southend-on-Sea, who object to the increases; in Paragraph 2 they say they are anxious to have some sort of provision to ensure that the maximum fare by the Liverpool Street route is no higher than that by the Fenchurch Street route. That has been the situation for some time, and, in my submission, that is not the apt subject of a maximum Charges Scheme; it is a matter for the administrative operation of the Railway—and, at any rate, up to now they have had this measure of assimilation which they want.

(President): Why could we not fix one maximum for Liverpool Street/Southend (Victoria) and a different one for Fenchurch Street/Southend (Central)?

(Mr. Fay): One could—and, indeed, you have done, because the maxima you fix are mileage maxima.

(President): I see.

(Mr. Fay): And at present the maxima are different, but the actuals are the same.

(President): That is the answer to my question.

(Mr. Fay): Yes, Sir. You see, they want a special provision, as I understand it, that notwithstanding the mileage, the fare shall be no greater by the longer route than it is by the shorter route.

Objection No. 3 is that of Brighton; they say, in paragraph 3: "There is a fast and frequent train service between London and Brighton as a result of which very many persons employed in London reside in Brighton and very many persons, resident in and around London visit Brighton for the day for recreational purposes. The proposed increased fares will result in a serious diminution of the day visitors, particularly those with large families of young children, and consequent loss to the Corporation". As far as the day visitors are concerned, Sir, I should have thought the great majority of them travelled on the cheap day concession tickets and that therefore this Application would not, and could not, concern them.

They go on in paragraph 5 to say: "The proposed increase in fares and particularly in season ticket rates will result in very many residents whose employment is in London leaving the town and will discourage prospective residents, with consequent loss to the Corporation". It is a very dismal prospect, that of a queue of exodus from Brighton following the increase in fares. I suppose, Sir, if the Corporation is right, those people are to-day, because the fares are now up, engaged in pulling up their roots, selling their houses and moving. But it is a completely false picture, it is just not what happens. Despite fares increases, the population of Brighton and the surrounding areas just does not decrease, nor does the number of travellers on the line and nor does the number of season-ticket holders.

(President): No, but they might have increased more than they have, had it not been for the higher fares.

(Mr. Fay): Yes, indeed. Of course, Sir, people at the distance of Brighton, who live there and who commute daily to London, are still getting, if they take a monthly or quarterly season-ticket, a very cheap form of travel—nearly down to a penny a mile, which is the cheapest form of transport available to any passenger in this country to-day. They have it in Brighton; and indeed when I get further down the list of Objectors, you will see that the people who travel the shorter distances seem to think that people at the longer distances get too much of a concession. However, perhaps criticism at both ends of the scale is the best indication that we have been able to come to a logical tapering scale.

The next Objection is No. 4, from West Ham; they say: "It is less than one year since the Transport Tribunal on 14th June, 1961, authorised substantial increases in the maximum fares chargeable on all services which are the subject of the present Application. It is less than three years since the British Transport Commission (Passenger Charges Scheme, 1959) was confirmed by Order of the Transport Tribunal on 8th July, 1959. After this short period of less than three years the proposal is to make increases which, in the case of certain season tickets, will be as high as 25 per cent over the rate fixed in July, 1959"—and they give an example in respect of a distance of 10 miles.

That paragraph goes on: "Such increases place an unreasonable heavy burden on certain sections of the community, notably on those workers from West Ham and elsewhere who have undertaken to live at the suggestion of their Local Authority in housing estates constructed under 'overspill' programmes in rural and semi-rural areas"—and we find, Sir, that this note recurs in other Objections, that Local Authorities who have housed some of their people outside their borough are complaining of the burden of the increases.

Of course, the Local Authorities who make this complaint are in fact in themselves in a position to remedy it if they think it needs remedying, because a social problem of this kind, namely the cost of transporting people and the cost of having them living in new areas away from their centres of work, may create a social problem. It is not a problem of the Commission's making; it is a problem which they are endeavouring to solve as a transport undertaker, but they cannot deal favourably with outbound housing estates any more than they can with any other form of hardship, real or alleged, and I should have thought that if there is considered to be a social problem here, it ought to be met by society, just as other social hardship problems are in fact met. Fortunately, the Local Authorities are in a position to deal with it; they are the landlords, and if they think the tenants are, because of the march of economics and the urgent financial necessities of the day, having an unreasonable burden put upon them, they can adjust that burden by an appropriate adjustment in the rents paid. That is West Ham.

I need not refer to No. 5, Essex; No. 6 is the Objection by Worthing, which has a standpoint similar to that of Brighton, namely that it fears a diminution in the numbers of its ratepayers.

(President): Why need you not refer to Essex, Mr. Fay?

(Mr. Fay): I thought there was nothing particularly special in what they said, Sir.

(President): It is the first County Council, you know.

(Mr. Fay): Yes, indeed; there are several County Councils, and I was merely picking out special items which appeared to me to occur in some of those Objections. We can take it that all the Objectors are in fact objecting!

No. 7 is the Objection by the London County Council; they make a number of points. In paragraph 4 they say: "The Applicants' management of their charges is inequitable between the London Area and the rest of their undertaking. The proposed increases in charges will be largely inoperable outside London and will be imposed on London's only".

I am not quite sure what they mean by that, Sir; the increase in ordinary railway fares is there and it is in force to-day—it is certainly not inoperable. If they mean that outside London no-one will buy season-tickets at the new rates, all I can say is that the effect of past increases has not been to discourage season-ticket traffic outside London.

In paragraph 5 they say: "The charges should be so ordered as to encourage the fullest possible use of rail facilities and to relieve pressure on the roads".

That again is a matter which is outwith the jurisdiction of this Tribunal, as I would submit. It may be that this is desirable; it may be that at some time somebody will suggest in Parliament that something might be done along those lines, but at the moment one can merely relieve pressure on the roads by permitting the railways such revenue as enables them to go on continuing as an efficient operator.

Paragraph 7 indicates that "The level of fares charged on the London Lines of British Railways will be substantially higher than the level of fares charged for similar travel outside the London Area".

I suppose that refers to the fact that outside London there are many cheap-day return tickets available throughout the day in order to provide a fare comparable with the local bus fares; in other words, the local effective railway day-return is settled by the Traffic Commissioners when they provide what shall be the local bus fares. That is a fact; it has been a fact for many years and this present Application in no way alters it one way or another.

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[Continued]

Paragraph 8 is a matter which is special to this present Inquiry, containing the Objection by the London County Council to the ending of the half-mile fare charging; they call the scale an unsatisfactory one.

Well, Sir, I dare say they will endeavour to show us what they consider to be a satisfactory one; but if it is to have the same yield as I have indicated, it is going to have a great deal of half-mile charging in it, and it will involve many high increases in the higher ranges. The £1 1/2 m. will have to be found somewhere else in the scale, if there is no increase in the 5d. and 8d. tickets.

Objection No. 8 is by Middlesex, again on formal grounds.

Objection No. 9 is by Wanstead and Woodford; that is similar to West Ham's Objection.

No. 10 is by Barking, on which I have nothing specific to say, and No. 11 is the Objection by the South Essex Traffic Advisory Committee.

No. 12 is by Croydon; that is another of the Local Authorities which make the point about their out-borough housing estates. They do so in paragraph 2, where they say: "The Scheme makes no provision for reduced fares in circumstances such as those attaching to the Corporation's Addington Housing Estate"—and they point out that that is an estate of about 16,000 persons, 5 or 6 miles from Croydon.

They go on: ". . . many of the adult residents have to travel to Croydon either for work or, if they require a larger choice, for shopping than is offered by shops on the Estate. The only form of public transport to Croydon is the bus service".

Well, there again, Sir, there are the social implications involved in the difficulties of living some way from your work and the difficulties involved in Local Authorities making it a policy to move people a distance from their work—

(President): Yes, but the County Borough of Croydon go on to say that if you had reduced fares, that would result in increased revenue.

(Mr. Fay): Yes, Sir; that is a legitimate point and a point which they can make if they wish. But the whole experience of London Transport is that it is not so; the lowering of fares produces a diminution in revenue which requires so great an increase to make it up that it is not in fact made up.

Objection No. 13 is from the County of Surrey; No. 14 is from Hertfordshire; No. 15 represents the welcome return to this Tribunal of the City of London. I do not know whether they are represented; I have not seen the list.

(President): Yes, they are.

(Mr. Fay): I am delighted to hear it. They have come, and apparently they object to the proposal generally; in paragraph 1 they speak of the disadvantages outweighing the advantages; in paragraph 2 they raise the question of hardship; in paragraph 3 they say that there will be difficulty in the recruitment of staff at economic wages—I suppose that means office staff in the City of London, but I do not know—and paragraph 4 is a general Objection. What I am waiting anxiously to hear is what the official voice of the City of London has to say about sound financing by nationalised bodies, and what their views are as to the amount of reserves which a body such as this ought to aim at.

Objection No. 16 is Hastings; again that is concerned with the long-distance season-ticket traveller. I have forgotten how far Hastings is from London; we did have some calculations before, but I believe they are down among the penny-a-mile season ticket travellers—they have that very cheap facility.

Objection No. 17 is by Sutton Coldfield. They make a very detailed Objection and I think I can say that they have this distinction, that alone among the 25 Objectors they are not concerned with travel to or from or in London, because if I read these Objections aright, the Objectors outside the London Area are all either County Councils or Home Counties or the Councils of Boroughs who are interested in their rateable value and in the well-

being of their commuters to London. But here is the solitary voice of the provinces away from the London influence, namely Sutton Coldfield, with almost detailed Objection.

In paragraph 2 they say: "The proposed maximum second-class season ticket rates set out in Appendix C to the Commission's Application indicate a more substantial concession to the long-distance traveller than is considered justified. The analysis of monthly season-ticket charges, shown at Appendix 'A' hereto, reveals a difference of some 250 per cent between such charges for distances of five and 70 miles. The Council consider that no further increase should take place in season-ticket charges for distances under 25 miles until the difference between the rates of charge has been made more equitable. It does not appear to be reasonable that ordinary fares are now to be charged at 3d. per mile (second-class) whilst the longer distance season-ticket travel is as low as 1d. per mile."

If one looks at their Appendix, one sees that they set out the charge per mile which I think is fairly accurately calculated, at various distances, coming down to 1.03d. at 70 miles, or as near as makes no matter, 1d. a mile, and that is on a 5-day week basis.

Well, Sir, I do not know what they say in Hastings about Sutton Coldfield, but there it is; those who travel short distances, oddly enough, want better season-ticket fares for short distances, and those who travel longer distances, oddly enough, want better treatment for the long distances—perhaps the two may be allowed to cancel each other out.

Then, in paragraph 4, they make a suggestion that the 3d. a mile rule for ordinary fares should not apply in units of a mile, and they have tried their hand—there is nothing they will not try in Sutton Coldfield—at a fare table in their Appendix "B" for charges for shorter distances at ordinary single fares. I am sorry to say that if my calculations are right, they seem to have fallen into the usual double booking trap, because they have constructed a delightful scale, which goes up 3d., 4d., 5d., 6d., 7d., 8d., 9d., 10d., 11d., 1s. 0d. according to quarter of a mile stages, or stages which may be spread a quarter of a mile, or perhaps in some cases longer; they have a fare, for example, at 1s. 4d. for 5½ miles, that being the next charge to 4½ miles at 1s. 2d., but what I think they have not noticed is that if you have a scale of this kind, you have to have more steps at the higher stages than they plan. Five miles, for example, is the same as four miles plus one mile, and by re-booking a person can travel the four miles, according to this scale, for 1s. 0d. and the extra one for 3d.; so if this scale is to be logical, it has to have a 1s. 3d. fare for five miles sandwiched in between a 1s. 2d. and 1s. 4d. fare. Similarly, a 1s. 5d. fare would have to be sandwiched between 1s. 4d. and 1s. 6d., because it is the product of 1s. 0d. for four miles and 5d. for 1½ miles—and so on. They have obviously designed the scale to give a nice progression in the lower stages and 2d. jumps once you get above a shilling; but you just cannot do that without re-booking anomalies. It is true that on the railways it is more possible and it can be controlled, but on the buses it cannot, and this is a useful example of the difficulties of constructing this kind of fare-table.

That is not the end of Sutton Coldfield, Sir, because at the top of page 2, they make a statement of fact which I am in duty bound to put in issue. They say: "Recent increases are known to have reduced the revenue available to the Commission from shorter-distance rail travel in the borough of Sutton Coldfield".

Well, Sir, that in fact, according to the information supplied by British Railways, is not so, unless "in the borough of Sutton Coldfield" excludes points outside the borough, and I should not have thought that many people, either before or after the increases, would take a train journey for so short a distance that it was inside the borough. The fact is that all short-distance journeys have increased, both in number and in revenue, as between January, 1961 and January, 1962—perhaps that is Sutton Coldfield on the telephone!

Objection No. 18 is from East Ham, who make much the same points as West Ham.

Objection No. 19 is from Eastbourne, which is again concerned with the longer distance commuter.

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[Continued]

(President): You are quite right in saying that East Ham's Objection is on the same lines as West Ham's, and I am not sure that it is not in the same words ; but they do raise in paragraph 6 a point of principle which I think is not raised by other Objectors ? It may be irrelevant ; it may be unsound, but it is new.

(Mr. Fay): I am not sure that it does not appear in other Objections, and perhaps I should have dealt with it at some stage, Sir. It is in fact, I think, in similar terms in paragraph 6 in whichever "Ham" it is that comes first—West Ham, Objection No. 4. But perhaps I am going too fast, but I had intended as regards both West Ham and East Ham to mention that point so made, and perhaps I had better read it from East Ham's Objection now that we have reached that.

Paragraph 6 sets out the view of East Ham that "the present policy of the British Transport Commission gives undue and disproportionate emphasis to the financial aspects of the nationalised transport undertaking, and does not relate those financial aspects correctly to the nation's transportation problem as a whole. The present fares policy, combined with other aspects of railway operation (not the subject of this Application), may result eventually in the closing of the greater part of the railway system on the grounds of financial economy. The social and economic consequences of such a result would be disastrous, and no effort should be spared to conserve the railway system, even if it necessitates a form of continued subsidy. Both Local Authorities and the Central Government provide many services which cannot be financially self-supporting and are consequently subsidised. The public transport system should be considered in the same light, similar principles should be applied and the fares policy revised accordingly".

Well, Sir, that is a succinct and well-knit argument which one has heard before ; I do not wish to criticise it except to say that it is addressed to the wrong audience. It is an argument which might well be addressed to the High Court of Parliament, but we exist and have our being here in these Inquiries within the framework laid down by the two Acts of Parliament which require the financial aspects to be regarded as paramount. Of course, it has always been open for someone to say : "Your financial policy is short-sighted and in the long run you will do better by asking for less now and conceding at once that that could be said and you could say that there should, for social reasons, be some sort of subsidy, or that for social reasons some lines should not attempt to make a profit or a surplus or that indeed they should lose money ; but that is something which they simply cannot be heard to say within the framework of the Transport Acts.

(President): Has there not always been, is now, and always will be, a certain amount of subsidisation ?

(Mr. Fay): Yes, indeed, but one has to take some sized unit, and within that say : "Let there be cross-subsidisation" ; but the unit itself must make both ends meet.

(President): It all depends which unit you take. I imagine your traffic people will agree that there are some services, defined, if you like, as a particular route, which do not pay on some days certainly. They may not pay at all, financially, over the long periods of time, and they probably agree that all services, considered separately, do not pay at particularly times. Are they not in a sense being subsidised ? You and I are subsidising buses, are we not, if we travel enough at a time when there is nobody else travelling in the bus—we are helping to keep the service going ?

(Mr. Fay): It depends upon what route we are ! I am quite sure that my clients can give examples of routes which do not pay and which are paid for, year in and year out, by other routes.

(President): You may say that in the case of London Transport, the obligation upon them—and I think it is the same obligation which is being continued on them—is to provide an adequate transport system.

(Mr. Fay): Yes, that is the statutory duty, for which it is expressly provided that no action lies.

(President): It is a declaration ; Lord Bowen called it a duty of imperfect obligation—a high-sounding phrase of which I have never really understood the exact meaning. It all depends upon what unit you are looking at.

(Mr. Fay): Yes, indeed. I am bound to say that I thought this was a general objection to the fares policy, which indeed is mentioned, and they are saying that the policy ought to be to ask less for fares, with the object of providing a public service and forgetting about the financial considerations — forgetting any wish of the Government that there should be a surplus earned, looking globally at the whole of the undertaking. That is what I say simply cannot be done under the present statutory structure, and I remind myself of Section 85 of the Act of 1947 which is still in force and which provides that "Neither the Commission nor the Transport Tribunal shall do anything in the exercise of their respective powers as respects charges . . . which in their opinion will prevent the Commission from discharging the Commission's general duty to secure that their revenue is not less than sufficient for making provision for the meeting of charges properly chargeable to revenue", etc. In that framework there is, in my submission, simply no room for this kind of argument. Whatever merits it may have if addressed to a legislative body, it is indeed a fundamental argument in respect of transport whether it should pay attention primarily to economic considerations or whether it should be regarded as a social service ; and there is no doubt in my submission that the present Acts require the Commission and the Tribunal to regard it as an economic body, endeavouring to make such money as it can, and not as a social service. That is that, and I am obliged to you, Sir, for calling my attention to it.

(President): There is one other thing, Mr. Fay. As you have been going through these Objections, I have not interrupted you by calling your attention to the cases where boroughs and I think in some cases Counties, have said that they wish to be associated with a particular form of Objection. No doubt you have them all there ?

(Mr. Fay): Yes, Sir, I have been supplied with copies of letters indicating general support ; I am sure they are before you and that you will consider them.

(President): Yes. Quite a number of people are not represented here, and they may be assured that we shall read everything that reaches us.

(Mr. Goff): I think you have a note, Sir, that as well as appearing for the London County Council I also represent the Metropolitan Boroughs Standing Joint Committee and the Metropolitan Boroughs of Bethnal Green and Stepney.

(President): Very well.

(Mr. Fay): Objection No. 19 comes from Eastbourne, who again, in paragraph 4, say that the proposed season-ticket increases will cause residents to leave the town.

Objection No. 20 is from Ilford, and again it is similar to the Objections from some of its adjacent districts.

Objection No. 21 is from Maidstone who make, as they have made in the past, complaints of a detailed nature about individual services, which in my submission are inappropriate to this Tribunal, although enquiries are being made in case anyone wishes to further this Objection. But I should say that I understand there are meetings between the Borough of Maidstone and the Southern Region, either initiated or actually in being, to deal with complaints of this kind.

Objection No. 22 is a general Objection from the City of Rochester ; No. 23 is from Walthamstow, in similar terms to those of other Objectors in the North-East ; No. 24 is from Leyton, who also refer, in paragraph 1, to the outborough building programme, and to them apply the comments which I made in the case of Croydon. Last, and finally, is Berkshire.

I think I am justified in saying that the Objectors all come from the periphery of London and are within the economic influence of London, except Sutton Coldfield. As has been the case on a number of occasions, there are no Scottish Objections.

That is all I have to say about the Application, Sir, but at the risk of anticlimax, or even bathos, I have to bring to your notice a small drafting matter which I cannot ask the Tribunal to deal with because it is not in my Application but which the Tribunal may think it right to deal with. This is a matter which is not likely

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to be the subject of controversy; it follows from the change in ownership or control of the railway line from Amersham to Aylesbury, from London Transport to British Railways. There are various references in the existing Scheme to the London Transport line terminating at Aylesbury, but that is now without meaning, inasmuch as London Transport has no line beyond Amersham. The formal Instrument under the Scheme of Delegation of Functions to the London Transport Executive by which that change in the control of the railway was given effect to was dated the 13th April of this year, and if you think that the Tribunal has power to amend the word "Aylesbury" to the word "Amersham" in a number of paragraphs of the Scheme, we think the Scheme would be a little more eloquent for that exercise in drafting. Whether you have such power under a Section 79 Application may perhaps be doubtful, but I put that matter before the Tribunal as in duty bound.

(President): Where is Aylesbury mentioned?

(Mr. Fay): It is in paragraphs 6, 7, 9, 25 and 28, Sir.

(President): In the first Schedule?

(Mr. Fay): No; that is defining London Lines, I think, without reference to the Executive; but it does come into the second Schedule and the fourth Schedule. The places I have noted are, as I say, paragraph 6, 7, 9, 25 and 28.

(President): What do you say about this doubt; I thought we could really do anything!

(Mr. Fay): I hope you are right. On an Application for a new Charges Scheme, I think that might well be an accurate statement of the law. This is a Section 79 Application, and Sub-section (4) of Section 79 provides for the procedure at the Inquiry, and ends up with the words "and"—and I insert "the Tribunal"—may then make such order, if any, with respect to the matter of the application as they think fit."

The question really is: What is the "matter" of the Application? If it is construed narrowly as applying to the increases in maximum to which this Application is specifically directed, then the power is not there; if it is the Charges Scheme generally, then you have the power, and I do not suppose anybody is likely to appeal to you if you change "Aylesbury" to "Amersham".

(President): We shall brood deeply over this, Mr. Fay.

(Mr. Fay): I do not suppose you have a copy of this, Sir; may I hand in a copy of the formal document under which the change in control was made? (Copy handed.)

(President): These are very rare, are they not? When I have had occasion to ask for such an instrument I

have sometimes been told I could look at one, but this seems to be about the only one that is loose from the Commission's Office.

(Mr. Fay): They are rare in that there are few copies available and they are rare in the sense of the exercise of the power quite apart from the number of copies. That concludes what I have to say, and I will ask my learned friend Mr. Crawford to call Mr. Winchester. I assume that the procedure followed at this Inquiry will be similar to that followed in the past?

(President): I was going to say that we do propose to follow the procedure which we have followed quite often now, that is to say, to allow anyone who wishes to postpone their cross-examination of the Commission's witnesses and to wait until they have all been heard. Of course anyone who does not wish to do so can cross-examine at the ordinary time when the witness has given his evidence. It may be convenient at this stage if I mention the times at which this hall will be available, because it is that fact which determines, in some measure at any rate, on what days we sit. We have the hall available to-day, to-morrow and Wednesday; then we do not propose to sit in Whit week and the hall will be available on the 19th, 20th, 21st and 22nd of June; it will then be available again on the 27th June, and again on the 2nd, 3rd and 4th of July. That is as far as our imagination has been reaching.

(Mr. Goff): When you speak of postponing cross-examination until all the evidence has been completed, I take it there would be the usual adjournment at that stage to enable one to consider the evidence. I take it if the evidence finished before the close of the first three days and we postponed cross-examination, we would not be required to start it then?

(President): Certainly not. I was going to say that I hope the fact that we cannot have the hall after the 6th will give the Objectors sufficient time for rumination between the 6th and the 19th. If the proceedings stretch into the 6th June, then anyone who does not want to cross-examine but would like to address us can take that opportunity of addressing us.

(Mr. Goff): I am much obliged, Sir.

(Mr. Fay): For my part I think I can safely say that we shall finish our evidence in chief, assuming no cross-examination, comfortably tomorrow.

(President): Then all those who are anxious to deliver orations without cross-examining can now sharpen their pencils and their wits and come on Wednesday if they want to, and if they let us know they want to do it, otherwise we shall not come on Wednesday if nobody else is going to be here!

MR. WISHART INGRAM WINCHESTER, SWORN

Examined by MR. CRAWFORD

1. Is your full name Wishart Ingram Winchester—
Yes.
2. This Tribunal is very familiar with you, I think, but for the record are you the Director of Budgets of the British Transport Commission; a Member of the Institute of Chartered Accountants for Scotland, and a Member of the Institute of Transport?—Yes.
3. I think after a period of service with the London Passenger Transport Board from 1935, you have been in the Commission since 1950?—I have.
4. Will you tell the Tribunal first what the actual deficit for British Railways was in 1960?—£112m.
5. Have you also calculated the deficit for British Railways in 1961?—Yes; the deficit for 1961 as I expect it will appear in the published accounts is £136m.
6. What order of deficit do you expect in 1962?—About the same.
7. Since you last gave evidence to the Tribunal on a Section 79 Application in 1961 have British Railways been faced with increases in costs?—Yes. There have been increases in wages, including the cost of the short working week, which we estimate will cost £17m. in a full year; there have been increases in coal prices at an annual cost of £4m., and there have been increases in other prices (mainly fuel oil and steel) costing £3m. a year.
8. I think that totals £24m.?—It does, yes. In addition depreciation is continually rising as assets are replaced at higher price levels and is at a level of about £2m. or £3m. a year.
9. Taking the British Railways passenger services as a whole, can you say the extent to which the passenger services of the Railways are responsible for the Railway deficit?—Yes. It is clear to me that they are responsible for a substantial part of it. It is difficult, as I have explained on previous occasions, to separate the financial results of these passenger services from the freight services, particularly since most of the expenses of track, signalling and administration are joint to both passenger and freight services.

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[Continued]

10. In 1961 can you calculate the track, signalling, and general administration expenses? — Yes, they are estimated at £143m.

11. And the Central Charges for 1961? — £49m.; that makes a total of £192m. for those unallocated expenses or costs.

12. About how much do you consider the coaching services have contributed to that cost? — The coaching services (which include not only the passengers proper, but also the merchandise and parcels carried in the passenger trains) are estimated to have contributed £30m. to that £192m.

13. What percentage is that? — That is 16 per cent.

14. Do you consider that a 16 per cent contribution is adequate for the coaching services? — No, I do not. It is not possible to say precisely how much they should contribute, but on a test which I have used before of gross receipts the gross receipts of the coaching services in 1961 were 45 per cent of the total receipts and I would think that they ought to have contributed at least that proportion of the track and interest charges.

15. Is the track and signalling requirement for passenger operation more expensive than the general average? — It is. If it were not for the existence of passenger services the level of track and signalling could be a good deal lower and a good deal less expensive.

16. On your basis of gross receipts, is 35 per cent the minimum figure, not taking into account the more expensive operation of the passenger services? — That is so.

17. Do you produce Table WW 1? — I do.

18. Which sets out the financial position of London Lines in a future year? — Yes.

19. It begins, I think, with passenger receipts, at the pre-April, 1962, charges, of £36.3m.? — Yes.

20. Which you take from Mr. Robbins's Table RMR 8? — Yes.

21. Have you adjusted that by £0.3m. for a full year's effect of the electrification of the London, Tilbury and Southend Line? — I have.

22. (*President*): These are Mr. Robbins's figures, the receipts? — Yes.

23. The expenses are yours? — Yes.

24. (*Mr. Crawford*): Turning to the working expenses in the first place, can you estimate the working expenses with any degree of accuracy as a general matter? — No. The working expenses are incurred in conveying passengers on local journeys within the London area. Some of these passengers travel on local trains where it is possible to estimate reasonably well the cost of carrying them in the trains, but others are on through trains. Moreover the passengers use stations in common with through passengers and often with parcels traffic, and the trains in which they travel share the tracks both with through trains and with freight trains. In these circumstances the expenses must be built up by a series of estimates which in some cases inevitably involve arbitrary assumptions.

25. Have you prepared estimates for the purposes of this Inquiry? — I have, yes.

26. And have you followed substantially the same pattern as you followed in 1952? — I have, which was further brought up to date in 1958.

27. Generally speaking do you feel that your estimates are on the high or the low side? — I think that in certain respects they are on the low side. I think the movement expenses and probably the terminal expenses are as reasonable as they can be made, but as regards track and signalling and the need for reserves, the figures that I have put forward could, I think, reasonably be put higher.

28. Reverting to your Table, you have your movement expenses as the first item of working expenses. Will you explain to the Tribunal the basis upon which you have assessed the movement expenses totalling £18m.? — The procedure has been the same as in previous sub-

missions. In general, train mile expense rates, based on the circumstances of individual services, have been applied to the estimates of train mileage within the London Area.

29. How have the mileages been assessed? — They have been assessed from the time-tables for the services concerned and adjusted, where necessary, for known or anticipated changes; the only one of importance being the London, Tilbury and Southend electrification to which I have referred.

30. So far as the purely local services within the London Area are concerned, can they be accurately assessed? — Yes, the mileage can be assessed with reasonable accuracy.

31. You mentioned earlier, of course, the difficulty of apportionment in relation to through trains carrying local passengers. What method of assessment have you adopted for the purpose of that through train traffic? — In the absence of any available alternative I have continued to rely on the pre-war London Pool formula, which had regard to the number of stops made by each train within the area.

32. (*President*): I am not following this very deeply. Mr. Crawford. Let us take the "Local" trains. I gather that means trains which have operated wholly within the London Area? — Yes.

33. £15.3m. is the end figure at the end of a process, is it not? — Yes.

34. Begin at the beginning and tell me what you start with for a local train. — You ascertain from the time-table the annual mileage operated by that local service. You then, depending on the nature of the service, either ascertain or estimate the moving expenses rate appropriate to that train.

35. You mean the cost of moving that train? — Yes, moving the trains providing that service.

36. Let us stop there. The first cost, I suppose, is the wages? — Yes.

37. And then the fuel? — Yes.

38. And it would not include anything for interest on the rolling stock? — No.

39. Or anything on the other side for depreciation of the rolling stock? — Oh, yes, it has depreciation of the rolling stock in it.

40. In other words, to take a particular train, say the 8.50 out of Liverpool Street for, wherever you like, Epping, you calculate the number of miles which it will travel during the year and you multiply those miles by a figure? — The multiplication is not done in quite that detail. We look at the service, say, from Liverpool Street to Enfield, shall we say, and the mileage will be an addition of a whole series of multiplications of the large number of trains providing that service. We will then estimate an appropriate cost per mile for that service as a whole. It is done on larger groups.

41. In other words, you do a lot more additions before you come to the multiplication? — That is so.

42. But in the end it will be a multiplication of mileage by a figure per mile? — Yes.

43. (*Mr. Crawford*): As you have explained, so far as the local service is concerned, you can calculate the mileage pretty accurately from the time-table? — That is so.

44. And do you take the £2.5m. proportion towards expenses of through trains on a basis which involves much greater prescience, skill and judgment rather than actuality? — I would not say there was any particular skill or judgment. It is certainly not actual, it is a formula. If I may go into more detail, if a train makes one stop within the area you take 20 per cent of the mileage, and for each additional stop there is an additional 5 per cent of the mileage taken within the area up to a maximum of 80 per cent for a train that passes beyond the area. That was the pre-war London Pool formula negotiated at arms-length by the parties to the pre-war London Pool, and because we cannot think of a better way of estimating it we have continued to use that formula.

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45. Have there been any developments recently which have facilitated your estimates of the movement expenses?—Yes, there has been a substantial conversion from steam to electric and diesel operation in the London Area, and 90 per cent of the expenditure chargeable to the London Area in my £18m. here arises from electric and diesel operations.

46. (President): Why does that make it easier to do your additions and multiplications?—Because the expenses of that kind of fraction are more easily ascertainable from the records, from the books. They are self-contained. In the case of steam you have a depot dealing with all kinds of services, some freight, some local passenger, some through passenger, and you have got some fairly extensive allocation of the wage expenses at a depot, and so on.

47. But the diesels have their own shed and the electric trains have their own shed so there is no admixture of steam/freight operation?—That is so; there is very little mixture of depots commonly serving these diesel services and other kinds of services; you are much more self-contained in the operations and the servicing.

48. (Mr. Crawford): Has there also been a greater demand from the managerial side for figures in relation to these new services?—Yes, there has, first before we make the conversion and then after the event the management is continually wanting to know what all these different services are costing to run, and the great bulk of the figures that I have used for this purpose of expenses per mile are figures that have been prepared for other purposes as part of the common extraction of information for management. I may have had to bring them up to date, it might have been done a year ago and I have had to allow for increase in wage rates since, and so on, but by and large there has been very little by way of further estimating the costs per mile.

49. Taking your movement expenses as a whole, the £18m., do you regard that as a reasonable figure, if you take on the low side?—Well, may I say of the £15½m. I regard that as not only a reasonable but a substantially accurate figure. I think the £24m. for the contribution towards expenses of through trains is a reasonable figure, but I do not suggest it is in any way a factual figure because of the inherent arbitrariness in the mileage calculation. The expense per mile used for the through trains is largely factual.

50. Your next figure on WW1 is for terminal and documentation expenses, £6½m. I think you have broken those down, in fact, into three separate items, have you not?—Yes. I have made a separate assessment for staff expenses, for maintenance of buildings and for the remaining station expenses.

51. Firstly taking staff expenses, will you tell the Tribunal the basis upon which you have calculated that element in your terminal and documentation expenses?—Again for the information of management, the separate expenses appropriate to passenger operation of all the stations in the London Area have recently been extracted—in fact at different dates for different Regions, but all within the last year or two. I have adopted all these extractions made for management, adjusted only to bring them up to current wage and price levels that was necessary. Then having of the total staff expenses for these stations, I have divided them between London Lines (that is the local journeys) and the balance of the user (which is the through journeys) in the same proportions as were used in 1954.

52. (President): Your total staff expenses are excluding staff who are engaged wholly or partly on freight services?—Yes, Sir, that is fairly straightforward. A little more difficult is excluding the parcels staff, but I agree there is an element of allocation probably of individual staff and certainly of the staff of an individual station.

53. You have got the total charge and you are now going to try to dissect it into London Lines and non-London Lines?—That is the next step, yes. For that purpose I have used the proportions that were estimated in 1954. I have not attempted to reassess the London and outside London proportions.

54. (Mr. Crawford): Do you think they would be significantly different to-day from 1954?—I would not have thought there was very much in it. If anything I think the local is increasing a little more than the through, but I would have thought there was not much to it.

55. When you took the figures out in the proportions in 1954, was that done as a special exercise at that time?—It was; it was done as a special exercise for the purpose of the Tribunal at that time. It was a test made of the user of the station, partly the number of bookings, partly the number of passengers using the station, partly the number of stops at the station; a complicated formula for each part of the staff expenses.

56. The second element in the terminal and documentation expenses is the maintenance of buildings. On what basis have you estimated that?—I extracted the total cost of station maintenance in the Purley District—which covers about one quarter of the stations in the London Area—and multiplied the average cost per station in that district by the total number of stations in the London Area. That gave me a total cost of station maintenance appropriate to passenger station maintenance in the London Area, which I then divided between London Lines and through passengers in the same proportions as I had used for staff expenses.

57. Then you have your third group of other expenses contributing to terminal and documentation expenses. Did you calculate that on a percentage basis?—Yes; I took that in the same proportion to staff expenses as was shown by the 1961 accounts for British Railways as a whole, after eliminating one or two items such as ticket agents' commission, which was obviously inappropriate to London.

58. What is in fact the percentage of staff expenses?—I added 14 per cent. to staff expenses to cover these various items.

59. Those three groups of expenses together produce your £6½m. in WW1 for terminal and documentation expenses?—Yes.

60. (President): You have split them up under those three heads. What do you put down for terminal expenses?—I am afraid I have not got the figures by me underlying the £6½m.

61. (Mr. Crawford): No doubt you can give the individual items which go to make up the £6½m.?—Yes. The staff figures are £5m. almost exactly.

62. (President): I did not want the basis, I wanted a mere split, for my purpose, between terminal and documentation. You divide them into three heads. I do not care at the moment how you arrive at the individual figures, but what are the three figures which add up to £6½m.?—The figure for staff is the first heading, £5m.; maintenance of buildings is £900,000, and other expenses is £700,000; that is £6½m.

63. (Mr. Crawford): Your next item on WW1 is track and signalling. Have you extracted the cost of the track expenses in 1961 of the Southern and Eastern Regions in the London District and brought them up to current levels?—Yes. I took the main London Districts of the Southern and Eastern Regions and extracted the 1961 track expenses of those districts, and then brought them up to current wage and price levels.

64. Would you regard the Southern expenses as reasonably typical?—Yes. I ascertained that the expenses of the Southern Region in 1961 were regarded as reasonably typical of a normal year; but it was considered that the expenditure in the Eastern Region was on the high side and I reduced the expenses of that year to a more normal level.

65. So you adjust it for that. Then did you arrive at an average cost per mile for those districts?—I did. I then applied that average cost per mile to the appropriate proportions of the total mileage of each Region within the London Area.

66. Of the London Area track expenses so arrived at, did you then again do your apportionment between London Lines and the through passenger and freight traffic?—Yes. For that purpose I once again relied on

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[Continued]

the special exercise that had been done in 1954. At that time the allocation was made pro rata to gross ton miles of local passenger services on the one hand and through passenger and freight services on the other. I should perhaps qualify that for the record by saying that for the Southern Region the figures were extracted in 1954 and used in that year, but the Eastern figures were not available then and were done in 1955 and used again in 1958.

67. What about the total signalling maintenance in the London Area; how was that estimated?—I estimated the total signalling maintenance expenses in the London Area in the same way as track expenses, except that in the Southern Region the signalling districts are a good deal smaller than the track districts and I relied on the experience of two typical districts.

68. Have you extracted the total cost of the operation of signals in the Southern London Area?—Yes.

69. When was that done; when did you initially make the exercise of extracting the cost of signals operation?—It was done in 1960. The total cost of operation of signals in the Southern London Area had, in fact, been extracted for management purposes in 1960, and I brought that up to current price levels. I did not make a similar extraction for the Eastern Region, but I took the 1955 costs which had been specially extracted for the Tribunal then and brought them up to current prices pro rata to the Southern experience; I applied the same increase as the Southern had shown.

70. Did you take the total signalling expenses for each Region?—Yes.

71. And apportioned them between London Lines and the through services again?—Yes, I did. I again adopted the 1955 formula which, in the case of signalling, was pro rata to train miles.

72. Have you taken the movement and terminal costs for London, Midland and Western Regions?—Yes. I estimated that by applying to the movement and terminal expenses of the London Midland Region the same proportion which the Southern and Eastern track and signalling bore to their movement expenses.

73. Have you then considered the adequacy as a whole of your calculation in relation to London track costs of the apportionment you have made to London Lines?—Yes. There are a number of reasons which lead me to think that the formula now adopted (which is substantially the formula used in 1954) gives an adequate charge to London.

74. What are your reasons for saying that?—In the first place the formula ignores the higher standard of track and signalling required for passenger as compared with freight services. You must have a higher standard of safety and a higher standard of speed for passengers and, therefore, better track and better signalling are required.

75. Have you any other reasons for thinking the calculations are perhaps on the low side?—Yes, because the proportion of local passenger to through passenger and freight traffic has almost certainly increased since 1954. For the country as a whole passenger traffic has increased and I am certain that is true of London traffic, whereas the freight traffic has declined since 1954. So the adoption of the 1954 proportion, in my view, understates the proper charge to London Lines.

76. If you eliminated the through passenger and freight services, would there be much saving in the London Area on track expenses?—I would think there would be little saving; the track expenses would go on even if only the local London services were provided.

77. Going back to your £73m. for track and signalling, you consider it to be, if anything, an under estimate?—I do.

78. Your next item is general administration?—Yes. That I have added to the remaining expenses in the proportion shown by the experience of British Railways as a whole.

79. That brings you to the total of £34m. against your £36½m. of receipts, throwing up a margin, at present charges, of £2½m.?—Yes.

80. You then add to that the £1½m. estimated yield from the proposed increases?—Yes.

81. Producing a net receipts of £4m.?—Yes.

82. (President): You say the £2m. you have taken for general administration is a proportion of a larger figure, the larger figure being the general administration costs of British Railways as a whole? Yes, in relation to their other expenses.

83. Where does one find that general administration?—You cannot find that from the accounts, Sir. The allocation to administration which is used for costing purposes includes, in addition to what is described as "administration" in the item "General Expenses," a good deal of the administration expenses which are shown at the beginning of other sub-accounts. For example, under "Train vehicle operating expenses" there is an item of administration and that is not dealt with in my movement expenses—at least the bulk of it is covered by this administration item at the end.

84. Supposing we were considering British Railways as a whole here, what proportion would your administration be of the total?—It is 2 to 32.

85. 2 out of 32?—Yes, 2 as against 32 in total.

86. British Railways as a whole is 32?—Yes.

87. (Mr. Crawford): So that is the proportion which, in your experience, London Lines bears to British Railways as a whole for this purpose, is it?—No; I merely assume that London Lines would follow the same pattern as British Railways as a whole. We have for this purpose used the normal costing grouping of expenses, which is not identical with the grouping shown in the published accounts. The various items in WW1 between them exhaust all the items of expenses shown in Statement 6(1) of the Commission's accounts, but they are grouped slightly differently.

88. Having calculated prospective net receipts of £4m., have you considered Central Charges in relation to London Lines?—Yes. I first of all started from the figure of £2m. which was used in 1953 and which, after some debate, was, I think, accepted both by Objectors and by the Tribunal as being a reasonable allocation of Central Charges at that time to London Lines.

89. I think in fact paragraph 22 of the Tribunal's Memorandum of the 20th July, 1953 makes note of that figure?—Yes. The £2m. had been arrived at in the absence of any better basis by apportioning the total Central Charges of British Railways pro rata to working expenses.

90. Have you done a similar calculation on this occasion?—Yes. I have mentioned that the Railways' Central Charges in 1962 are expected to be £55m. An allocation to London Lines pro rata to working expenses would give a figure of £3.3m. There is an alternative calculation which, I think, has some merit in which you make the allocation pro rata to gross receipts. That would give you over £4m.

91. Have you also made a third approach to the proper contribution of London Lines to the interest charges of the Commission?—Yes, I have. I started again from the figure of £2m. estimated in 1953 and tried to proceed to see, on a actual basis, what had happened since then. As set out in WW2 I have made a calculation of the additional capital expenditure which has been incurred on London Lines since 1953 and I have calculated the interest on that expenditure.

92. Looking at WW2, you set out this calculation. To what schemes does it relate, first of all?—It relates to schemes which are now in operation, or will very shortly be in operation in the case of the London, Tilbury and Southend Lines, which affect in greater, or less degree the London Lines operations.

93. Are these all schemes which are either actually in service or about to come into service?—Yes.

94. Do you show the total capital expenditure for the various schemes and the relationship of the proportionate part attributable to London Lines?—I do, yes.

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MR. WISHART INGRAM WINCHESTER

[Continued]

95. Can you explain the basis upon which you have estimated the proportions for London Lines where they differ from the total expenditure?—Yes. I have endeavoured to estimate in each case the use made of the new facilities by London Line services and by other services. In some cases the new schemes were wholly within the area such as Enfield, Chingford and Bishop's Stortford. In other cases they go outside or they are used by through services and I have made an allocation to London Lines.

96. The total attributable on that basis to London Lines is £63.4m., which you have called £63m., and you then add a further £7m. for minor schemes. Can you briefly explain the minor schemes?—There are a very large number of small schemes, I think all under £1m. each, which I have dealt with in exactly the same way as the schemes I have mentioned. I have got the total cost and allocated a proportion to London Lines.

97. That produces £70m. Have you then deducted the estimated depreciation provisions in respect of London Lines from 1953 to 1962?—I have. I had only the three years' calculations available, namely the three years in which we have put forward the London Lines figures, 1954, 1958 and 1962; but from these three representative figures I have estimated over the period as a whole.

98. You have calculated that at some £12m.?—Yes.

99. I think my learned friend Mr. Fay in opening referred to that as an element of self-financing?—Yes.

100. Does that produce your final figure of £58m. upon which you calculate your interest rate?—Yes.

101. What is the interest rate which you have taken, on average, as having been paid 7—5½ per cent. That has been calculated by allocating the cost to these individual schemes over the year in which the expenditure was incurred and applying the rates that the Commission was paying during those years.

102. Have you taken your 5½ per cent. on the whole of the £58m.?—Yes; it comes to just over £3m., which I have rounded to £3m.

103. (President): Before you leave that, the attribution to London Lines in the case of the dieselisation schemes for the Eastern Region seems to me to be very high. It is £4m. out of the £4.6m.—It is, perhaps, unhappily described. It is only such of the dieselisation schemes as affect London Lines. The total figure does not include any schemes which do not affect London Lines at all. For example, there are schemes out in Norwich which do not come into the total at all. The first column is confined to schemes which do affect London Lines to a greater or less degree. Schemes which come into London are mainly in London, I think I am right in saying.

104. (Mr. Crawford): For example, where you have against "Eastern Region" a total of £4.6m. which you reduce to £4m., that is a scheme which is very largely applicable to the London Area?—There is more than one scheme; there are two or three schemes involved there, I think.

105. (President): But only £0.6m. is attributable to, or chargeable against, or allocated to, an Area which is not the London Area?—That is so, yes.

106. That is why it strikes me as a very large proportion to be chargeable against London or to be allocated to the

London Area.—As I say, the schemes which do impinge on London are very largely in London. The schemes which are not in London at all are not in my total at all.

107. I appreciate that.—I am afraid I have not got details of the individual schemes by me.

108. When you say "dieselisation schemes" you probably mean some change in practice which involves the use of diesel engines instead of steam; is that it?—Yes, in fact diesel multiple units. There is no diesel locomotive in this; it is a self-contained carriage with a diesel engine in it.

109. And most of them are in the London Area?—Yes, they are fairly local services.

110. (Mr. Crawford): I think you call them multiple unit trains?—Yes, that is so.

111. Having arrived at your £3m. interest charges on the additional developments, have you added that to the original £2m. of 1953?—I have.

112. Do you consider, on this method of calculation, that the total Central Charges for London Lines should now be in the region of £5m.?—Yes, I think that is so.

113. I think one ought perhaps to bear in mind on that point the effect of the Transport (Railway Finances) Act of 1957. How would that affect the interest on capital borrowing in relation to these schemes?—The only part of the £3m. which would fall into Central Charges chargeable to the Commission's Revenue Account in 1962 would be that relating to expenditure incurred in 1958 and earlier. The interest on expenditure incurred in the years 1959 to 1962 would be charged to the Special Account. That interest on the pre-1959 expenditure is only about £1m.

114. So that if one takes out from your £3m. the Special Account items which at the present moment are in that Account, you would be left, would you not, with a figure of £3m.?—Yes, being the original £2m. plus £1m.

115. (President): Or, putting it the other way about, of the £3m. which results from WW1 only £1m. is immediately chargeable against revenue.—That is so.

116. (Mr. Crawford): Do you, however, consider it a matter of importance to bear in mind the effect of the Special Account and the gradual emergence of the monies which are at the present time in that Account?—Certainly. This will all have to be met eventually. Moreover, I would like to point out that the three-plus years of suspension are an average designed to deal with a variety of different types of scheme with different characteristics. The major electrification schemes outside London, such as the London Midland, and some of the Diesel Locomotive Schemes, marshalling yards, freight improvement schemes would tend to come into operation, or at least to make a proper return, much more slowly than expenditure of this character, and I do not think it is necessarily correct to apply the average of three years to every element making up the total.

117. Are the schemes in WW2 schemes which have an immediate fructification?—Yes, they are; as soon as they come into service they should substantially be yielding their proper return.

118. And, consequently, they would take considerably less than the average period of three years which was the basis of the Special Account?—That is so, yes.

(Adjourned until tomorrow morning at 10.30)

4 June, 1962]

[Continued]

EXHIBIT AE 1

LONDON TRANSPORT

FINANCIAL POSITION IN 1960, 1961 (ESTIMATED) AND 'FUTURE YEAR' (BASED ON 1962 BUDGET) AT PRE-APRIL 1962 CHARGES AND IN 'FUTURE YEAR' IF PROPOSED INCREASES IN CHARGES ARE APPROVED

Item No.	1960			1961			'Future Year'		
	(Estimated)			Year			(1)	(2)	(3)
Gross receipts									
1	Passenger	83.3	87.7	88.7			
2	Miscellaneous	0.4	0.4	0.3			
3				83.7	88.1	89.0			
4	Working expenses (including depreciation and renewals, etc.)	...		77.4	82.1	84.6			
5	Net traffic receipts	...		6.3	6.0	4.4			
	Add:								
6	Net receipts from commercial advertising, letting of sites, etc.	...		1.6	1.7	1.8			
7	Total net receipts	...		7.9	7.7	6.2			
8	Central charges	...		6.5	7.0	7.5			
9	Surplus (+) or deficit (-) at pre-April 1962 charges	...		+1.4	+0.7	-1.3			
10	Estimated yield of increases in charges—								
	(a) Within existing powers						0.2		
	(b) Temporarily authorised 26th March, 1962	...					2.6		
11	Surplus at proposed charges	...					+1.5		

Note: The accumulated deficit of net receipts in relation to central charges to the end of 1960 was ...

EXHIBIT AE 2—continued

8	Other variations	...	...	+0.4	—
9	Net increase in working expenses	...	...	+4.7	+2.5
<i>Variations in Traffic Receipts</i>					
Passenger—					
10	Increases in fares—8th May, 1960, 15th January and 30th July, 1961	...	...	+4.4	+1.3
11	Change in volume of traffic, etc.	...	...	—	-0.3
12	Miscellaneous	...	...	—	-0.1
				+4.4	+0.9
13	<i>Variations in Net Traffic Receipts</i>	...	...	-0.3	-1.6
14	<i>Add: Increase in net receipts from commercial advertising and letting of sites, etc.</i>	...	...	+0.1	+0.1
15	<i>Variations in Net Receipts before Central Charges</i>	...	...	-0.2	-1.5
16	<i>Deduct: Increases in Central Charges</i>	...	...	+0.5	+0.5
17	<i>Worsening (-) in financial position after Central Charges</i>	...	...	-0.7	-2.0

EXHIBIT AE 3

LONDON TRANSPORT

NET CAPITAL OUTLAY AND INTERNAL FINANCE
1959-62 ADDITIONAL BORROWINGS REQUIRED
AND INTEREST CHARGES THEREON

Item No.	1959				1960				1961				1962			
	£m.				£m.				£m.				£m.			
1	Gross capital outlay	...	7.1	13.5	13.0	14.6										
2	<i>Deduct: Realisations</i>	...	1.7	0.3	1.1	1.3										
3	Net capital outlay	...	5.4	13.2	11.9	13.3										
	<i>Deduct: Internal finance—</i>															
4	Depreciation provisions	...	3.5	3.7	3.9	4.2										
	<i>Transfers to (+) or from (-) other reserves—</i>															
5	Bus and coach overhaul	...	-0.3	-0.3	—	—										
6	Maintenance equalisation	...	+0.2	—	+0.2	-0.5										
7	Revenue margin (including assumed yield from fares increases temporarily authorised and raised under existing powers—£1.8m. in 1962)	...	—	1.4	0.7	0.8										
8	Net internal finance	...	3.4	4.8	4.8	4.5										
9	Balance to be financed by borrowing	...	2.0	8.4	7.1	8.8										

No. Item	1961			1962		
	(Estimated)	more (+) or less (-) than 1960	(Estimated)	(1)	(2)	£m.
<i>Variations in Working Expenses</i>						
Changes in wage rates and conditions of service and in price levels—						
1	Wage rates and conditions of service	...	+3.2	+2.1		
2	Pensions, superannuation and National Insurance	...	+0.6	+0.3		
3	Price levels of electric current, fuel oil, tyres, etc.	...	+0.4	+0.3		
4	Net increase in wages and prices	...	+4.2	+2.7		
5	Local rates	...	+0.1	+0.1		
6	Depreciation of rolling stock	...	+0.2	+0.2		
7	Savings arising from mileage changes, including trolleybus conversion	...	-0.2	-0.5		

* An additional half-year's interest amounting to £0.3m. will fall to be met in 1963, being a further half-year's interest at 6 per cent on the net borrowing in 1962.

4 June, 1962]

[Continued]

EXHIBIT AE 4

LONDON TRANSPORT

ASSESSMENT OF CONTRIBUTION TO CENTRAL CHARGES, ASSUMING LONDON
TRANSPORT TO BE TREATED AS A SEPARATE UNDERTAKING

Year	Interest on capital obligations (1)	Interest on Capital Expenditure						Central Charges			Surplus (+) or deficit (-) on accumulated charges (Col. 14)	Accumulated deficit (-) at year end (Col. 15)		
		Cumulative total bearing interest at rates indicated						Interest (9)	Net Revenue (10)	Interest on capital obligations and capital expenditure (Col. 1 plus Col. 9)				
		Financed from depreciation and other internal sources (3)	Gross expenditure less realisations (2)	Net expenditure (4)	£m. (5)	£m. (6)	3 per cent (7)	4 per cent (8)	5 per cent (9)					
Total	£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.		
1948/59	42.08	78.81	42.21	36.60	38.19	— 1.07	— 0.52	—	12.97	47.31	55.05	64.66		
1960	3.81	13.18	3.42	9.76	38.19	— 1.07	— 0.52	9.76	1.37	7.85	5.18	+ 3.06		
1961	3.81	11.91	4.07	7.84	38.19	— 1.07	— 0.52	17.60	1.90	7.70	5.71	+ 0.68		
1962	3.81	13.32	3.66	9.66	38.19	— 1.07	— 0.52	27.26	2.42	8.26	6.23	+ 0.58		

NOTES :

(1) This table is a continuation of Exhibit P116 (page 436 of the Minutes of Evidence, March, 1959) and Exhibit AE.6 (page 45 of the Minutes of Evidence, January, 1961). The notes on those Exhibits, except in so far as they relate to earlier years only, apply to the new figures.

(2) The table starts with a total for 1948/59 which agrees with previous figures given. The figures used for 1960 have been revised to accord with the actual figures for that year. The figures for 1961 and 1962 are estimates for those years, and as regards the Net Revenue figure for 1962, it is based upon the assumption that the yield from fares increases temporarily authorised and raised under existing powers will amount to £1.8m. in 1962.

(3) Following the general principles of Exhibits P116 and AE.6, revenue margins have been applied in reducing accumulated deficits instead of being deducted from capital outlay. This treatment does not alter the final net result. Interest has been assumed at 3 per cent. for 1948/51, 4 per cent. for 1952/57, 5 per cent. for 1958/59 and 6 per cent. for 1960/62.

4 June, 1962]

[Continued]

EXHIBIT WW 1

LONDON LINES OF BRITISH RAILWAYS
INDICATION OF FINANCIAL POSITION IN A
'FUTURE YEAR' AT PRE-APRIL 1962 CHARGES IF
PROPOSED INCREASES IN CHARGES ARE APPROVED

fm. fm. fm.

Passenger Receipts at pre-April 1962
charges per RMR.8 36.3

Add for full year effect of electrification of the L.T. & S. Line ...

Item No.

LONDON TRANSPORT
CAR MILEAGE

EXHIBIT RMR 1

'Future Year'
(based on 1962 Budget)

36.6

1960 (1) 1961 (estimated) (2) (3)
Millions Millions Millions

Total Car Mileage

say 36½ 1 Road Services ... 325.1 327.0 325.4

Movement expenses—

Local trains 15½

Contribution towards expenses of through trains 2½

Working Expenses—

Terminal and documentation expenses 6½

Track and signalling—

Total expenses of lines in London Area of Southern and Eastern Regions, being lines which deal mainly with passenger traffics 10

Less: Contribution from freight and through passenger traffics 3½

Add: Contribution towards expenses of remaining lines in London 1

General Administration 7½

Margin at present charges 2½

Estimated yield of proposed increases per RMR.8 1½

Net Receipts available to meet Central Charges and Reserves 4

LONDON TRANSPORT
CAR MILEAGE'Future Year'
(based on 1962 Budget)1961 (1) 1961 (estimated) (2) (3)
Millions Millions Millions

Total Car Mileage

say 36½ 1 Road Services ... 325.1 327.0 325.4

2 Railways ... 204.5 208.9 212.5

3 Total 529.6 535.9 537.9

'Future Year'
(estimated) more (+) or less (-) than 1961
than 1960 (estimated)

(4) (5)

Millions Millions

Analysis of Changes—

Road Services—

4 New and Improved Services +0.3 +0.1

5 Planned Service reductions -4.9 -3.3

6 Conversion of trolleybus to bus operation -0.5 —

7 Lost mileage +8.8 +1.7

8 Calendar changes -1.5 +0.4

9 Other variations -0.3 -0.5

10 Net change—Road Services +1.9 -1.6

Railways—

11 New and Improved Services +0.8 +3.3

12 Cancellation of Uncoupling +5.8 —

13 Planned Service reductions -1.7 -0.5

14 Lost miles +1.0 +0.5

15 Calendar changes -1.0 +0.3

16 Other variations -0.5 —

17 Net change—Railways ... +4.4 +3.6

18 Net change—All Services ... +6.3 +2.0

EXHIBIT WW 2

LONDON LINES OF BRITISH RAILWAYS
ESTIMATE OF ADDITIONAL INTEREST CHARGES ARISING FROM CAPITAL EXPENDITURE INCURRED IN THE YEARS 1953 TO 1962 TO MODERNISATION SCHEMES IN SERVICEExpenditure
London Capital Lines
Total Proportion
£m. £m.

Main Schemes

Electrification Schemes

Enfield, Chingford and Bishop's Stortford 9.6 9.6

Augmentation of Shenfield service and conversion to A.C. 3.1 2.3

London, Tilbury and Southend Line ... 18.3 18.3

Kent Coast 35.0 3.0

Desulaisation Schemes

Eastern Region 4.6 4.0

London Midland Region 5.0 4.3

Western Region 3.2 1.8

Rolling Stock additions and replacements not included above

Electric multiple units

London Midland 2.1 2.1

Southern 15.8 10.0

Change of Electric Supply Frequency

Southern Region 10.7 8.0

say

Minor Schemes 7

Deduct: Estimated depreciation provisions in respect of London Lines 1953 to 1962 63

Interest at 5% per cent. being average rate of borrowing to finance this expenditure 70

£3m.

EXHIBIT RMR 2

LONDON TRANSPORT EXECUTIVE

Summary of variations between the Budget of Passenger Traffic Receipts for 1961 (shown at Col. 14, line 6 of Exhibit BH 28 at last Inquiry) and the actual receipts for 1961 and between actual receipts for Year 1961 and Budget of Passenger receipts for 1962 and "Future Years" (at fare levels in force on 14th April, 1962).

£m. £m.

Original budget 1961 (B.H. 28 Line 6 Col. 14) 84.3

Add effect in 1961 of fares increases of—

15th January, 1961 2.6

30th July, 1961 0.8 +3.4

87.7

Adjust for—

(a) Mild winter in early 1961 +0.2

(b) Other causes, trend, etc. -0.2 —

Actual receipts 1961 87.7

Add effect in 1962 of fares increases of—

15th January, 1961 0.2

30th July, 1961 1.1 +1.3

89.0

Adjust for—

(a) Difference between Monday (53 in 1962) and Sunday (53 in 1961) ... +0.1

(b) Mild winter in early 1961 -0.2

(c) Metropolitan Line modernisation ... +0.1

(d) Transfer of line north of Amersham to L.M. Region -0.1

(e) Other cause, trend, etc. -0.2 — -0.3

Budget 1962 and 'Future Year' 88.7

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